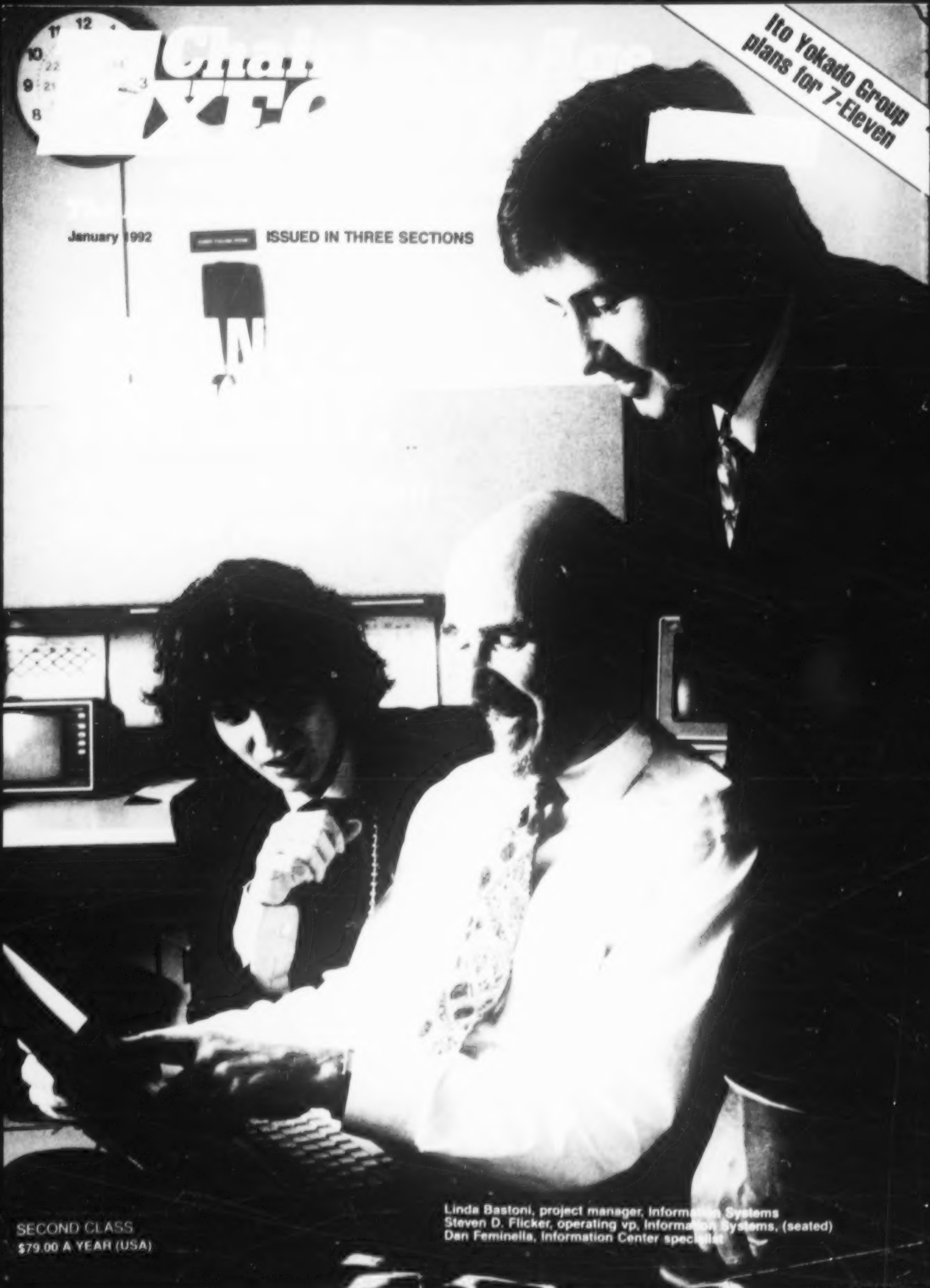

Ito Yokado Group plans for 7-Eleven

January 1992

ISSUED IN THREE SECTIONS

Linda Bastoni, project manager, Information Systems
Steven D. Flicker, operating vp, Information Systems, (seated)
Dan Feminella, Information Center specialist

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Vol. 68, No. 1/January 1992

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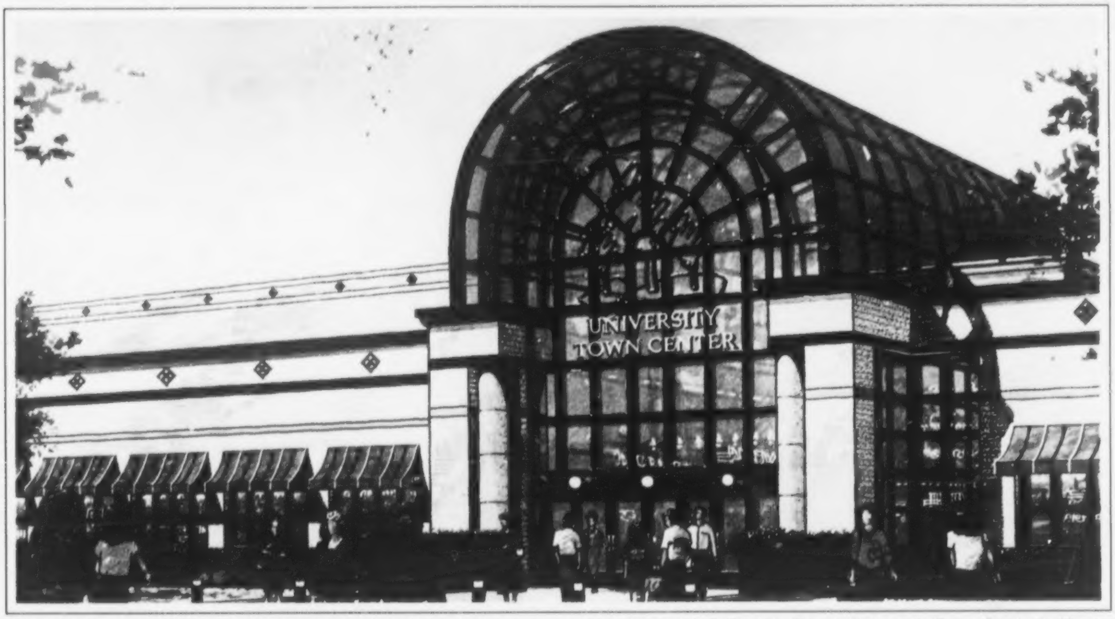

***Many Ohio-based developers are** returning to building in the state, such as Edward J. DeBartolo Corp.'s University Town Center in Kent.*

BUCKING TRENDS IN THE BUCKEYE STATE

OHIO'S STABILITY AND PROSPERITY ATTRACTS DEVELOPERS

If anyone told an Ohio retailer or developer 10 years ago to be grateful for the collapse of the Rust Belt, he or she would have been laughed off. The changes in the steel industry brought hard times to many areas in the state.

Now, with most of the country mired in recession, Ohio is diversified, stable, and feeling fewer of the shocks of the national downturn.

"Ohio had its depression much earlier. We're not unaffected [by the downturn], but the situation is not as desperate as it was when we lost the steel industry," says John Kramer, executive vp at Pittsburgh-based J. J. Gumberg.

The collapse forced Ohio to diversify. Most development occurred in the later part of the 1980s, when recovery was assured. But the earlier slowdown in building had its benefits.

"The reason Ohio has not been as affected is that we were not overbuilt. We have such tough zoning, and a shortage of large parcels of land, that new tenants shied away," says Hal Reisenfeld, president of Beachwood, Ohio-based Reisenfeld & Co.

This has kept vacancy levels down at regional malls throughout the state, with only a few exceptions. Quality strip centers, too, are holding up fairly well.

"We've seen very little rent reductions, and lease renewals are being done at increased rents," says Marsha Roush, leasing manager for Roslyn, N.Y.-based Kimco.

Cincinnati: The Cincinnati metro area has benefited from corporate relocation both to the city itself and to nearby Northern Kentucky. The vacancy rate is fairly stable, with regional mall levels skewed by the large, and largely empty, Forest Fair Mall.

Change is coming for Forest Fair. The center will receive a $25 million rehab and renovation to prepare for a retenanting effort under new managers Parkfield Inc. (a partnership of Boorn Bennett Johnson Partnerships and Marquette Partners).

Sales at existing properties are holding up fine, which is just as well—there is little room for a new regional mall, says Jerry Sink, director of retail asset management for Atlanta-based Equitable Real Estate. The firm owns the recently renovated Tri-County Mall in the city.

"Cincinnati's retail is pretty much developed," Sink says.

Redevelopment is another story. COMPASS/Retail, a division of Equitable, is planning to renovate and retenant its 400,000-sq.-ft. Kenwood Mall. How to remerchandise the center, which is across the street from the newer 1.1 million-sq.-ft. Kenwood Towne Centre, is the major question.

"We've taken a very thorough approach to the redevelopment. We want to do it right. Kenwood is on one of the best retail corners in the state. Our question is how to reposition it," says Gary Farmer, vp-development for COMPASS/Retail.

Columbus: Even strong markets, with education, government and service driving the economy, can be overbuilt. Some areas are flirting with oversaturation.

"Some areas definitely have strips where there is more than sufficient retail," says George Hadler, vp of locally-based Hadler Co. One example is Dublin.

However, on the city's northeast side, NP Limited Partnership and Forbes/Cohen have announced plans to develop a 1.5 million-sq.-ft. regional mall as part of the Polaris mixed-use complex being planned.

Other parts of the city, particularly toward the west, do still need some development, and regional mall builders have been vying to supply it. Chicago-based JMB Retail Properties and the Edward J. DeBartolo Corp. are planning to open the Mall at Sawmill Place in 1993, if environmental approvals come in on time.

Cleveland: Two words suffice: Wal-Mart's coming. In areas where they aren't looking, Kmart and Target are looking to open or expand.

There should be sufficient dollars in the market for all three stores, says Emerick Corsi, vp-commercial development of locally-based Forest City Development.

"Fifteen years ago, Cleveland had Kmart, Zayre, Woolworth and W.T. Grant. Now that's down to Kmart and Hill's," he says.

The strength of the market continues to impress. While little new development is taking place outside the Wal-Mart/Kmart axis, retailers such as JoAnn Fabrics attempt to expand in and around the city, which is home to major corporations such as TRW.

While some vacancy exists, "Where the vacancies occur is the secondary, B-type centers," says Arnold Eisenberg, president of Beachwood, Ohio-based Arnold J. Eisenberg Inc.

Overall, the market remains solid, and relatively well-built out.

"There is talk about a new mall, but the opportunities are in infill and rehabs," says Richard Sammer, director of leasing at Cleveland-based Paran Management.

Development also may finally take place southwest of the city in Strongsville. DeBartolo and the Richard and David Jacobs Group (formerly Jacobs, Visconsi, Jacobs) have won the latest round in their battle to build the 1.3 million-sq.-ft. SouthPark Center in the town.

Dayton: Construction continues on the Mall at Fairfield Commons, a 1 million-sq.-ft. regional center that is furthest along in a battle to build in the city's suburbs (*Chain Store Age Executive*, April, 1991).

"Dayton is probably one of the few markets that is undermalled. It has an extremely strong and diverse economic base," including Wright Patterson Air Force Base and various civilian industries that serve it, says Sally Dunker, director of marketing

Ohio Developments

Beerman Realty:
North Park Center, 275,000 sq. ft., Huber Heights: opening fall 1992

Boorn Bennett Johnson Partnerships/Marquette Partners:
Forest Fair Mall, 1,400,000 sq. ft., Cincinnati: plans underway for $25 million renovation and retenanting

The Cafaro Co.:
Ashtabula Mall, 660,000 sq. ft., Ashtabula: opening fall 1992
Howland Commons, 300,000 sq. ft., Howland: planned for 1992
McKinley Centre, 100,000 sq. ft., Youngstown: final openings set for spring 1992

Don M. Casto:
Delaware Community Plaza, 200,000 sq. ft., Delaware: construction begins spring 1992, with first openings fall 1992
Upper Valley Plaza, 120,000 sq. ft., Springfield: construction begins in spring for late 1992 opening

The Edward J. DeBartolo Corp.:
Great Northern Mall, 1,100,000 sq. ft., North Olmstead (Cleveland): construction underway on renovation and expansion for late 1992 completion. Managed by DeBartolo for CGR Advisors
SouthPark Center, 1,300,000 sq. ft., Strongsville: in approval process. Joint venture with Richard and David Jacobs Group
Summit Mall, 957,000 sq. ft., Akron: plans under way for renovation and expansion for 1993 completion
University Town Center, 680,000 sq. ft., Kent: in approval process for possible 1994 opening
Woodville Mall, 1,018,000 sq. ft., Toledo: expansion planned for 1993 completion

Developers Diversified:
To be named, 225,000 sq. ft., Stow: in planning stages
To be named, 300,000 sq. ft., Macedonia: opening January 1993

Equitable Real Estate:
Tri-County Mall, 1,433 000 sq. ft., Cincinnati: McAlpin's joining center in August. Managed by Kravco.
Kenwood Mall, 365,000 sq. ft., Cincinnati: plans underway for renovation/expansion

Forest City Management:
Chapel Hill Mall, 980,000 sq. ft., Akron: partial renovation to reopen late 1992, with plans under way for major expansion in 1994

The Glimcher Co.:
Mall at Fairfield Commons, 1,000,000 sq. ft., Dayton: construction continuing for spring 1993 opening

Glimcher Group:
Elmhurst Plaza, 130,000 sq. ft., Warren: renovation to be completed late spring 1992

J. J. Gumberg:
Heritage Village Square, 250,000 sq. ft., New Philadelphia: redevelopment ongoing
Liberty Plaza, 400,000 sq. ft., Youngstown: plans underway for expansion to be completed late 1992
Springfield Square Mall, 300,000 sq. ft., Mansfield: Phase II to be completed end of 1992

JMB Retail Properties:
Dayton Mall, 1,100,000 sq. ft., Dayton: plans underway for expansion
The Mall at Sawmill Place, 1,000,000 sq. ft., Columbus: awaiting approvals from EPA. Opening planned for 1993. Joint venture with Edward J. DeBartolo Corp.

NP Limited Partnership/Forbes Cohen Properties:
Polaris Mall, 1,500,000 sq. ft., Columbus: groundbreaking set for 1993 for a 1995/96 opening

Paran Management:
Memphis/Fulton Plaza, 120,000 sq. ft., Old Brooklyn: renovation to be completed spring 1992
The Orchard, 90,000 sq. ft., Hudson: renovation to be completed spring 1992

The Rouse Co.:
Franklin Park Mall, 1,026,000 sq. ft., Toledo: renovation and expansion to be completed summer 1993

Vacancy Rates in Selected Ohio Cities (as of July 1991)

	Downtown	Strip Centers	Community Centers	Regional Malls
Akron	20%	11%	NA	5%
Cincinnati	15	18	15%	10
Cleveland	8	8	10	5
Columbus	8	20	18	5
Dayton	15	10	10	5
Toledo	35	20	NA	5

Source: New America Network 1992 Real Estate Planning Guide

***McAlpin's will join the recently** renovated Tri-County Mall in Cincinnati this summer.*

at Columbus-based Glimcher Co., the project's developer. Opening is set for spring 1993.

Meijer also is moving into the market, adding to the value retail mix in the city.

Toledo: Power centers are under construction in and around the city, and Meijer is entering the market.

Existing properties may reflect the real story. Rouse Co. expects moderate sales gains at its Franklin Park Mall, which will complete an expansion in 1993. DeBartolo is expanding its Woodville Mall, also for 1993.

As with most of Ohio, "Our downs aren't as down and our highs aren't as high in Toledo," says Michael Podracky, Rouse vp-group manager.

Elsewhere: Strangely, the problems in the early 1980s resulted in many locally-based developers busying themselves in other parts of the country. Many of these builders are now returning home to renovate and expand older properties, and even to building new ones in selected areas.

That creates a pretty large pool of builders to get busy.

"Look at the top 50 developers in the nation, and see how many are here—not just in Youngstown, but in Cleveland, Columbus and Cincinnati, as well," says John P. Richley, director of operations for Youngstown, Ohio-based Cafaro Co.

Both Cafaro and J. J. Gumberg are renovating centers in Youngstown.

"Youngstown used to be an iron and steel town. Now it's come back, just like Pittsburgh," says Ronald S. Gimple, vp-development, midwest for DeBartolo.

Two major malls are set for renovation and expansion in Akron. DeBartolo is continuing the approval process for its University Town Center in Kent.

Among the new largest projects in the state is Cafaro Co.'s 660,000-sq.-ft. Ashtabula Mall, opening this fall. The project will top out with six anchors and 70 specialty stores.

With so much activity going on now in comparison with much of the country, developers in Ohio are counting their blessings, and the benefits of that downturn 10 years ago. The state is a rare spot of stability in a turbulent environment.

"Ohio never experienced the highs, we don't have the lows right now. It's stable—not hitting home runs, but not striking out, either," Gimple says. ■

—Debra Hazel

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REVENUES

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney	4,200,000	– 1.1	11,642,000	– 2.0
Sears, Roebuck & Co.	7,659,900	– 2.1	21,936,400	– 2.7
Sharper Image	29,786	– 17.6	85,160	– 23.9
Williams-Sonoma	68,838	+ 7.8	196,084	+ 10.3
DEPARTMENT STORE CHAINS				
Dillard	954,941	+ 9.3	2,714,808	+ 13.6
Gottschalks	69,993	+ 7.3	203,824	+ 13.7
Jacobson's	87,820	– 0.5	266,584	NC
May	2,561,000	+ 8.0	505,700	+ 7.0
Mercantile	583,047	+ 2.1	1,646,692	+ 4.2
Neiman Marcus Group[4]	387,004	+ 2.5	1,744,800	+ 3.3
Nordstrom	687,077	+ 8.2	2,201,764	+ 10.5
Strawbridge & Clothier	211,856	– 8.7	630,246	– 4.1
DISCOUNT STORES				
Caldor	417,859	+ 4.5	1,230,730	+ 6.1
Consolidated	186,231	+ 11.7	520,731	+ 11.8
Dayton Hudson	3,955,000	+ 9.1	10,866,000	+ 10.0
Dollar General	189,739	+ 15.3	511,363	+ 13.3
Family Dollar[4]	257,290	+ 15.5	989,345	+ 13.1
Fred Meyer[2]	615,878	+ 9.5	1,382,720	+ 9.3
Hills	438,773	– 21.3	1,130,450	– 23.0
Jamesway	219,269	+ 0.8	600,648	– 3.3
Kmart	8,050,200	+ 6.4	24,250,700	+ 7.6
Pamida Holdings[2]	174,226	+ 2.4	315,057	+ 1.9
Rose's	326,727	– 5.6	992,039	– 5.7
Service Merchandise	656,437	– 0.2	2,011,941	– 1.0
Value City[4]	146,500	+ 15.7	586,400	+ 9.0
Venture	346,713	+ 2.6	1,000,510	+ 6.3
Wal-Mart	10,736,860	+ 34.2	30,528,791	+ 36.1
SHOE/SPECIALTY CHAINS				
J. Baker	120,565	+ 11.0	356,066	+ 9.3
Genesco*	122,126	+ 2.9	346,439	+ 0.2
Melville	2,300,000	+ 15.0	6,600,000	+ 17.9
Woolworth	2,423,000	– 1.9	6,778,000	+ 0.8
APPAREL CHAINS				
Ann Taylor*	113,838	+ 3.2	326,220	+ 7.8
Banker's Note[2]†	6,601	– 36.0	14,637	– 29.6
Catherines[2]	32,608	+ 14.1	66,046	+ 15.6
Charming Shoppes	248,560	+ 12.9	729,705	+ 15.1
Deb Shops	50,633	– 4.8	149,851	+ 4.2
Designs	45,579	+ 27.9	98,335	+ 22.5
Frederick's of Hollywood[4]	26,144	+ 8.6	114,134	+ 15.8
Gantos	61,023	+ 1.8	180,370	– 1.0
The Gap	702,052	+ 39.9	1,715,408	+ 31.0
Goody's	91,837	+ 32.3	242,931	+ 33.5
Paul Harris*	45,528	– 16.0	139,164	– 12.3
Jay Jacobs†	36,245	+ 18.3	70,120	+ 20.4
The Limited	1,433,412	+ 14.9	4,093,079	+ 16.6
Merry-Go-Round	196,995	+ 22.0	511,115	+ 25.5
Petrie	305,465	+ 5.0	966,727	+ 6.8
OFF-PRICE APPAREL				
50-Off Stores	30,841	+ 65.8	84,585	+ 71.5
Burlington Coat Factory[4]	154,367	+ 5.2	905,857	+ 12.8
Clothestime	62,122	+ 27.9	187,955	+ 23.4
Dress Barn[4]	87,650	+ 16.5	325,413	+ 14.7
Filene's Basement*	129,379	+ 15.9	325,709	+ 15.2
One Price Clothing	31,731	+ 25.0	89,777	+ 10.5
Ross	215,459	+ 16.3	645,436	+ 18.0
S&K	17,044	+ 24.4	50,616	+ 15.2
Syms	71,242	– 1.6	222,945	+ 1.9
TJX	705,269	+ 9.2	1,958,053	+ 13.0
WAREHOUSE WHOLESALE CLUBS				
Costco[4]	1,716,664	+ 27.2	5,215,456	+ 28.5
Office Depot	331,812	+ 39.5	959,799	+ 49.2
Price[4]	1,606,390	+ 30.6	6,755,966	+ 24.8
Staples*	144,498	+ 83.2	360,870	+ 74.4
Warehouse Club*	59,982	– 9.5	186,749	– 6.7

EARNINGS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney	116,000	– 13.4	227,000	– 38.8
Sears, Roebuck & Co.	54,400	– 39.0	197,200	+ 21.9
Sharper Image	(1,554)	NA	(7,475)	NA
Williams-Sonoma	(1,559)	NA	(1,810)	NA
DEPARTMENT STORE CHAINS				
Dillard	39,048	+ 20.7	2,714,808	+ 13.6
Gottschalks	394	+ 146.3	1,465	+ 196.0
Jacobson's	1,156	+ 317.3	387	NA
May	91,000	+ 1.1	249,000	+ 0.4
Mercantile	30,457	– 9.3	72,966	– 7.6
Neiman Marcus Group[4]	(8,088)	NA	9,289	– 67.1
Nordstrom	19,430	– 4.9	94,956	+ 36.6
Strawbridge & Clothier	(1,543)	NA	(4,723)	NA
DISCOUNT STORES				
Caldor	(3,861)	NA	(8,120)	NA
Consolidated	1,830	+ 291.0	3,173	NA
Dayton Hudson	35,000	– 40.0	109,000	– 38.4
Dollar General	4,282	+ 54.9	9,210	+ 61.5
Family Dollar[4]	8,253	+ 45.1	40,242	+ 40.1
Fred Meyer[2]	11,536	+ 33.7	19,558	+ 32.4
Hills	10,931	NA	(14,408)	NA
Jamesway	380	NA	(3,717)	NA
Kmart	109,500	+ 3.4	379,800	+ 7.3
Pamida Holdings[2]	(1,307)	NA	(3,265)	NA
Rose's	(2,539)	NA	(6,815)	NA
Service Merchandise	(4,730)	NA	(12,590)	NA
Value City[4]	2,700	NA	21,800	+ 75.8
Venture	5,446	+ 34.8	13,101	+ 61.0
Wal-Mart	353,200	+ 24.9	1,006,046	+ 24.3
SHOE/SPECIALTY CHAINS				
J. Baker	2,512	+ 23.1	5,549	– 23.8
Genesco*	1,544	+ 60.3	(1,012)	NA
Melville	55,600	– 13.5	113,000	– 24.8
Woolworth	41,000	– 48.8	75,000	– 55.4
APPAREL CHAINS				
Ann Taylor*	3,618	– 3.1	6,461	+ 253.3
Banker's Note[2]†	(2,350)	NA	(2,309)	NA
Catherines[2]	1,124	+ 836.7	2,678	+ 962.7
Charming Shoppes	11,843	+ 38.0	38,607	+ 49.6
Deb Shops	384	– 79.9	3,617	– 42.5
Designs	3,004	+ 84.5	1,751	+ 674.8
Frederick's of Hollywood[4]	1,236	+ 15.9	5,197	+ 22.5
Gantos	224	NA	(2,278)	NA
The Gap	70,796	+ 48.3	145,931	+ 65.8
Goody's	2,809	+ 481.6	5,623	+ 553.8
Paul Harris*	(2,001)	NA	(7,283)	NA
Jay Jacobs†	769	– 14.5	952	– 53.4
The Limited	72,872	– 14.2	202,957	– 10.3
Merry-Go-Round	9,588	– 16.2	25,211	+ 7.1
Petrie	(4,257)	NA	9,254	+ 117.5
OFF-PRICE APPAREL				
50-Off Stores	1,406	+ 306.4	3,859	+ 252.7
Burlington Coat Factory[4]	24,742	+ 2.9	950	NA
Clothestime	1,355	NA	4,111	+ 24,082.3
Dress Barn[4]	4,717	+ 11.5	14,953	+ 4.0
Filene's Basement*	7,354	+ 54.3	12,391	+ 75.8
One Price Clothing	344	+ 123.1	2,212	– 24.1
Ross	3,293	+ 1,498.5	14,055	+ 107.1
S&K	388	+ 1,543.2	1,475	+ 50.1
Syms	2,698	– 27.4	9,035	– 4.8
TJX	27,431	– 8.1	56,080	– 4.5
WAREHOUSE WHOLESALE CLUBS				
Costco[4]	32,405	+ 47.9	84,788	+ 72.3
Office Depot	6,247	+ 121.0	7,710	– 12.4
Price[4]	34,047	+ 6.8	134,071	+ 6.9
Staples*	2,606	+ 104.1	2,008	– 39.8
Warehouse Club*	43	– 23.2	137	NA

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

REVENUES

HARD LINES CHAINS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Best Buy[2]*	193,611	+ 27.2	359,190	+ 29.1
Blockbuster Entertainment	229,735	+ 39.0	616,628	+ 36.0
Circuit City[2]*	634,822	+ 15.3	1,192,876	+ 14.6
Claire's	56,997	– 2.0	173,444	+ 0.1
Fabri-Centers of America	120,494	+ 25.2	310,374	+ 23.1
Good Guys[4]	105,171	+ 33.6	426,689	+ 45.1
Hancock Fabrics	101,596	+ 0.8	293,148	+ 3.8
Highland[2]*	135,609	– 31.0	305,710	– 19.9
House of Fabrics	120,494	+ 25.2	310,374	+ 23.1
Lechters	54,800	+ 25.8	142,467	+ 25.7
Michaels	103,637	+ 21.3	266,704	+ 16.7
Oshman's[2]*	76,988	– 6.5	138,275	– 9.3
Pep Boys	261,233	+ 16.2	758,084	+ 12.8
Pier 1 Imports[2]	191,657	+ 28.1	394,045	+ 36.8
Stor Furnishings Intl.[2]	14,314	– 22.1	35,075	– 14.6
Tandy[1]*	1,051,982	– 2.9	1,051,902	– 2.9
Tiffany	126,401	+ 11.6	342,878	+ 9.3
Toys "R" Us	1,181,673	+ 12.3	3,263,507	+ 10.2

SUPERMARKETS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Albertsons	2,129,775	+ 5.4	6,481,801	+ 6.2
American	4,939,397	– 9.3	5,606,350	– 13.0
A&P	2,652,686	+ 1.9	6,243,380	+ 3.9
Bruno's[1]	615,951	+ 5.0	615,951	+ 5.0
Delchamps[1]	233,844	– 7.5	233,844	– 7.5
Food Lion	1,502,260	+ 13.9	4,415,815	+ 16.4
Giant Food	773,843	+ 2.2	2,338,111	+ 2.1
Hannaford Bros.	523,874	+ 18.7	1,502,085	+ 19.8
Kroger*	6,228,363	+ 4.3	16,221,881	+ 6.2
Marsh[2]	347,724	+ 3.4	612,066	+ 3.9
Quality Food	93,652	+ 12.1	268,396	+ 14.6
Safeway*	3,537,200	+ 2.1	10,457,400	+ 2.2
Smith's Food & Drug	544,026	+ 6.6	1,623,955	+ 8.3
Village Super Market[4]	189,658	+ 2.8	686,002	+ 0.7
Vons[3]	1,636,500	– 0.1	4,110,600	+ 0.9
Weis Markets*	316,612	+ 1.7	961,073	+ 1.9
Winn-Dixie[1]	2,333,880	+ 2.2	2,333,880	+ 2.2

CONVENIENCE STORES

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Circle K[1]*	759,951	– 14.2	759,951	– 14.2
National Convenience[1]	266,790	– 8.7	266,790	– 8.7
Southland*	2,150,332	– 4.7	6,162,897	– 2.9
Uni-Marts[4]	61,078	– 7.5	257,576	+ 6.1

DRUG STORES

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Arbor[4]	104,518	+ 17.7	405,899	+ 18.9
Big B	108,425	+ 5.1	347,924	+ 6.3
Drug Emporium[2]	184,911	+ 25.6	363,654	+ 26.1
Fay's*	212,610	+ 27.7	597,178	+ 23.9
Genovese*	97,493	+ 4.3	330,955	+ 3.8
Longs	571,318	+ 2.6	1,717,403	+ 3.9
Revco[1]	438,567	+ 7.5	438,567	+ 7.5
Rite Aid[2]	900,674	+ 9.0	1,808,072	+ 9.1
Walgreen[4]*	1,667,318	+ 11.7	6,733,044	+ 11.3

HOME CENTERS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Grossman	230,717	+ 0.8	627,118	– 0.3
Hechinger	400,571	+ 14.8	1,250,056	+ 15.4
Home Depot	1,298,277	+ 38.6	3,837,959	+ 36.7
Lowe's	790,274	+ 11.6	2,346,634	+ 5.2
Wolohan Lumber	90,759	+ 5.0	233,795	+ 2.6

NON-STORE RETAILERS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Home Shopping Network[4]	256,400	+ 4.8	1,078,500	– 23.4
Lands' End*	164,038	+ 12.8	411,950	+ 10.0
Lillian Vernon[2]	26,668	+ 4.4	50,728	– 8.7
Spiegel	399,197	– 6.3	1,263,171	+ 3.6

EARNINGS

HARD LINES CHAINS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Best Buy[2]*	1,767	+ 109.6	2,172	NA
Blockbuster Entertainment	27,353	+ 42.6	64,653	+ 36.2
Circuit City[2]*	17,365	+ 2.5	25,386	– 7.5
Claire's	(3,108)	NA	(1,758)	NA
Fabri-Centers of America	4,513	+ 52.4	5,556	+ 128.5
Good Guys[4]	2,247	+ 68.2	10,985	+ 49.1
Hancock Fabrics	6,331	– 13.4	18,868	– 3.9
Highland[2]*	(5,137)	NA	(17,008)	NA
House of Fabrics	4,513	+ 52.4	5,556	+ 128.5
Lechters	2,367	+ 44.7	3,337	+ 43.7
Michaels	1,646	+ 184.8	3,124	+ 200.7
Oshmans[2]*	(1,611)	NA	(3,030)	NA
Pep Boys	10,747	+ 29.7	29,286	– 5.1
Pier 1 Imports[2]	5,417	+ 110.9	17,054	+ 65.5
Stor Furnishings Intl.[2]	(2,053)	NA	(3,814)	NA
Tandy[1]*	41,833	– 18.8	41,833	– 18.8
Tiffany	8,205	– 9.4	20,140	– 6.7
Toys "R" Us	32,117	+ 11.8	77,947	– 11.9

SUPERMARKETS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Albertsons	59,519	+ 6.6	176,861	+ 10.6
American	28,931	– 6.4	181,280	+ 88.1
A&P	14,480	– 60.1	59,681	– 42.0
Bruno's[1]	12,811	– 16.7	12,811	– 16.7
Delchamps[1]	440	– 81.4	440	– 81.4
Food Lion	50,912	+ 25.4	144,408	+ 21.8
Giant Food	14,201	– 43.0	62,521	– 21.0
Hannaford Bros.	12,574	+ 9.3	32,637	– 2.6
Kroger*	16,563	+ 346.6	59,577	+ 285.4
Marsh[2]	3,796	– 6.5	7,202	– 3.1
Quality Food	5,006	+ 27.5	13,863	+ 30.3
Safeway*	53,000	+ 154.8	115,300	+ 94.1
Smith's Food & Drug	12,228	+ 41.9	33,478	+ 32.4
Village Super Market[4]	807	– 21.3	1,908	– 55.6
Vons[3]	18,100	– 35.1	46,600	+ 45.6
Weis Markets*	19,942	– 7.6	60,174	– 2.5
Winn-Dixie[1]	26,654	+ 9.3	26,654	+ 9.3

CONVENIENCE STORES

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Circle K[1]*	6,385	NA	6,385	NA
National Convenience[1]	(3,105)	NA	(3,105)	NA
Southland*	5,837	NA	(40,151)	NA
Uni-Marts[4]	956	– 10.3	2,484	– 13.0

DRUG STORES

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Arbor[4]	3,477	+ 29.8	13,053	+ 18.6
Big B	398	NA	3,279	NA
Drug Emporium[2]	(2,727)	NA	(1,732)	NA
Fay's*	1,057	– 58.9	4,141	– 43.3
Genovese*	1,310	+ 33.3	3,986	+ 53.7
Longs	11,484	– 4.0	39,764	– 6.3
Revco[1]	(13,995)	NA	(13,995)	NA
Rite Aid[2]	25,088	+ 16.6	53,996	+ 15.6
Walgreen[4]*	46,064	+ 14.0	199,083	+ 14.0

HOME CENTERS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Grossman	5,686	– 15.9	7,872	+ 40.8
Hechinger	6,536	+ 33.1	27,555	+ 14.3
Home Depot	58,385	+ 61.7	181,501	+ 48.8
Lowe's	12,992	– 7.7	49,752	– 24.6
Wolohan Lumber	3,373	– 14.7	7,564	– 16.5

NON-STORE RETAILERS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
Home Shopping Network[4]	(1,100)	NA	(8,900)	NA
Lands' End*	5,764	+ 157.6	8,369	+ 270.5
Lillian Vernon[2]	367	+ 52.3	(1,378)	NA
Spiegel	1,556	– 84.6	3,958	– 84.5

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures

[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

CALENDAR PENALTY HURTS NOVEMBER SALES

RETAILERS PREDICT A SLUGGISH CHRISTMAS

Despite price cutting to encourage buying over the Thanksgiving weekend, November retail sales reports were hurt by a Thanksgiving that occurred later this year than last year.

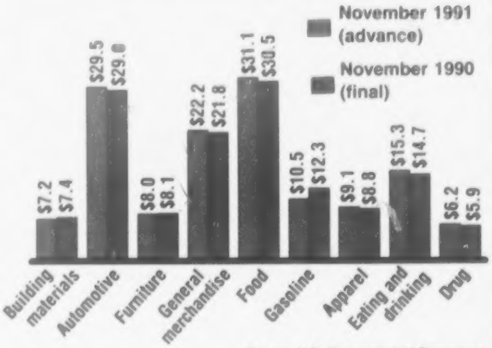
Kmart, in particular, was hurt by the calendar since its reporting period ended on the Wednesday before Thanksgiving. Kmart's comparable store sales were down 2.1% in the month, but would have been up 0.6% if its reporting period had included the two sales days after Thanksgiving, according to Michael P. Niemira, vp and economist, Mitsubishi Bank.

Sears, Roebuck posted a 2% growth in comparable store sales. But the sales period may have ended too quickly to gauge the impact of Sears' sole television sponsorship of the film "E.T." on Thanksgiving night, which had the largest viewership of any network movie in the last five years.

Nonetheless, retailers are being cautious about Christmas. According to a snapshot survey compiled by Mitsubishi Bank, more than two-thirds of retailers think that industry sales this year will be no stronger than last year.

NOVEMBER SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	November '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$4,469,000	+39.0	+13.0	$34,717,000	+36.0	+10.0
Kmart	2,967,414	+ 3.2	− 2.1	26,985,648	+ 7.1	+ 2.9
Sears	3,125,373	+ 0.8	+ 2.0	27,101,301	− 1.4	− 1.7
Penney	1,623,000	+ 1.7	+ 0.7	12,628,000	− 1.9	− 2.7
Dayton Hudson	1,590,000	+ 2.7	− 3.6	12,270,000	+ 9.1	+ 1.8
May	991,100	− 1.7	− 5.4	8,237,400	+ 6.5	− 1.0
Melville[1]	901,370	+ 1.7	+ 1.1	8,423,634	+15.1	+ 0.3
Walgreen[5]	601,770	+11.0	+ 7.6	6,143,028	+11.4	+ 7.5
Woolworth	472,000	− 0.9	− 5.4	4,445,000	+ 2.6	− 2.9
The Limited	576,700	+13.0	N/C	4,670,000	+16.0	+ 3.0
Mercantile	243,000	− 4.1	− 5.4	1,890,000	+ 2.6	+ 0.8
Circuit City[2]	274,600	+20.0	+ 4.0	N/R	N/R	N/R
The Gap	223,000	+24.0	+ 8.0	1,938,000	+30.0	+12.0
Rose's	162,829	N/R	− 8.0	1,154,868	N/R	− 0.5
Neiman-Marcus Group[3]	166,100	+ 0.1	− 4.0	600,200	+ 1.4	− 2.6
Venture Stores	162,200	+ 6.0	+ 0.6	1,162,700	+ 6.3	+ 2.9
Edison Bros.	122,700	+ 3.0	N/R	1,070,000	+12.3	N/R
Jamesway	89,700	−10.0	− 6.0	690,400	− 5.0	N/C
Charming Shoppes	90,600	+13.0	+ 3.0	815,300	+15.0	+ 6.0
Ross	89,000	+ 3.0	− 4.0	737,000	+16.0	+ 1.0
Value City	60,200	+11.5	+ 4.5	219,100	+18.1	+14.5
Dollar General	70,200	+ 9.9	+ 5.8	582,600	+12.9	+ 8.3
Best Buy[4]	88,000	+35.0	+ 5.0	590,000	+31.0	+10.0
Gottschalks	33,686	− 1.2	− 1.6	237,510	+11.3	+ 5.2
Claire's	20,572	−14.0	−20.0	194,019	+ 2.0	−10.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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Survey of
Loss Prevention Executives

The Ernst & Young/ IMRA Survey of Retail Loss Prevention Trends

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DEAR RETAILER:

With this report, Ernst & Young has completed its thirteenth year of surveying loss prevention in the retail industry. The co-sponsor is the International Mass Retail Association, and for the second straight year the publisher is Chain Store Age Executive.

A total of 155 companies participated in this survey. There were 23 department stores, 11 drug chains, 22 general merchandise/ mass merchants, 21 specialty apparel retailers, 22 specialty hardlines companies, and 19 supermarkets. In addition, there were 37 companies from "other" segments, including convenience stores and mail order companies. Fifty-three companies had annual revenues of less than $100 million, 41 had revenues of $100-$399 million, 25 had revenues of $400-$999 million, and 36 had revenues of $1 billion or more.

These retailers supplied us with information on shrinkage and apprehensions, loss prevention expenses and capital expenditures, physical inventory counting, and the most and least effective security devices. In addition, they provided information on shrink reduction incentive programs and pre-employment honesty testing.

The report contains sections on each of the six segments mentioned above, plus a section on overall findings. In addition, we have summarized our findings on shrinkage incentive programs and pre-employment honesty testing.

We would like to thank the advertising sponsors, 3M Safety and Security System Division and Washington Inventory Service. We also thank the National Loss Prevention Bureau, Ltd. for its assistance in the survey process. Most importantly, we express our gratitude to the retailers who took the time to participate in this survey.

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HIGHLIGHTS & METHODOLOGY*

In 1990, our participants lost an average of $20.1 million at retail due to shrinkage, or 2.08 percent of sales. This is seven percent lower than the 1989 "at retail" shrinkage figure of 2.23 percent. Shrinkage at cost in 1990 was 1.58 percent of sales.

However, retailers failed to meet their shrinkage goals of 1.84 percent at retail and 1.15 percent at cost. Plus, shrinkage in real dollars at retail increased by eight percent in 1990. The total dollars lost to shrinkage was $1.4 billion at retail, plus another $334 million at cost.

To prevent shrinkage, retailers spent about the same as they did in 1989: 0.34 percent of sales. The average expenses per company were $2.8 million, and 63 percent of these expenses were associated with personnel.

The retailers apprehended 436,000 people in 1990, seven percent of whom were employees. However, 38 percent of all dollars recovered were from apprehended employees. In addition, $241,000 at retail was reportedly stolen by employees per company but not recovered.

To combat the shrinkage problem associated with employees, almost half the retailers are turning to pre-employment honesty testing. In 1990, the companies that used these tests identified 21 percent of the tested applicants as "high risk."

Loss Prevention Stats at a Glance

	Average Shrinkage as a Percentage of Sales				Average Loss Prevention Expenses as a Percent of Sales	Average Value of Merchandise Recovered at Retail per Apprehension in 1990 from	
	At Retail		At Cost				
	1990	1989	1990	1989	1990	Employees	Customers
All general merchandise participants	2.08%	2.23%	1.58%	1.73%	0.34%	$730	$184
Department stores	1.87	2.01	-	-	0.47	609	212
Drug chains	1.78	1.75	2.16	1.77	0.21	390	89
General merchandise mass merchants	1.80	2.16	1.06	1.13	0.36	331	44
Specialty apparel	2.00	1.89	2.25	2.68	0.30	815	131
Specialty hardlines	1.41	1.41	0.73	0.70	0.35	1,178	213
Supermarkets	0.81	0.75	0.97	1.03	0.24	166	111

Retailers also favor employee awareness programs. These programs were identified as both the most utilized and most effective security devices.

The device most likely to be implemented in the future is exception monitoring software.

Physical inventories—particularly cycle counts—also correlate with improved shrinkage. Those companies that performed cycle counts in addition to complete physical inventories had a shrinkage of 1.96 percent at retail vs. 2.19

** The overall findings reported pertain to the general merchandise participants. Accordingly, the responses of the supermarket participants were excluded. A separate analysis of the supermarket industry appears beginning on page 46.*

percent for those that did not. Those retailers who performed cycle counts at cost had a shrinkage of 1.05 percent vs 2.29 percent for those who did not.

As you read this survey, please keep the following points in mind:

- The pool of retailers who participate in this survey changes from year to year. Therefore, it is not accarate to compare data published in this report to data presented in past surveys.
- Some participants did not answer every question. Therefore, it may not be accurate to compare data in one table to data in another table. Questionnaires that were substantially incomplete were not included.
- Because some of the questions allowed multiple answers and because of rounding, tallied responses do not always total 100 percent.
- The individual participant data is confidential. Survey responses were received and reviewed only by Ernst & Young.

Survey Demographics

		PARTICIPANTS BY1990 SALES VOLUME IN $ MILLIONS					
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or More	Total 1990 Sales	Average 1990 Sales
Total number of survey participants	155	53	41	25	36	$164,130	$1,059
Department stores	23	6	9	2	6	30,821	1,340
Drug chains	11	2	2	1	6	15,440	1,404
General merchandise/mass merchants	22	3	6	3	10	59,642	2,711
Specialty apparel	21	13	4	3	1	5,717	272
Specialty hardlines	22	8	8	5	1	6,901	314
Supermarkets	19	3	3	6	7	27,137	1,428
Other	37	18	9	5	5	18,472	499

LOSS PREVENTION TRENDS IN RETAIL: AN EXECUTIVE OVERVIEW

Our survey found that shrinkage was down in 1990. To some this is surprising. To most executives we spoke with, it was the logical outcome of a greater commitment to loss prevention.

With their eyes fixed firmly on the bottom line, retailers today are devoting a significant amount of attention to shrinkage.

Retailers have never taken loss lightly, of course. But this year's survey results, which found shrink percentages down, and comments by some of the industry's leading loss prevention executives, suggest companies are now attacking this age-old problem with as much zeal as they ever have before.

Our survey found that 1990 shrinkage at retail was down seven percent, from 2.23 percent as a percent of sales to 2.08 percent. At cost, shrink declined from 1.73 percent to 1.58 percent.

To some, this is surprising. With the economy in decline since late 1990, one might expect shrinkage to be up. But the majority of the executives we spoke with were not surprised. Companies are paying more attention to "bottom-line" functional areas, they say—especially loss prevention.

Shrinkage targets To reinforce this commitment, retailers are now setting specific shrinkage goals. Some 74 percent of our participants had a shrinkage target in 1990. At retail, that target was 1.84 percent of sales; at cost it was 1.15 percent.

And if they failed to meet these goals? Most companies investigated the cause of the shrinkage and/or implemented additional controls. But a very large group—some 43 percent—replaced personnel at a store that has not attained the desired shrink percentage.

In some cases, this meant dismissing employees—an action that troubles one loss prevention executive, who feels that this kind of punitive action could actually cause more trouble than it corrects. "It sets up a situation where people might fudge paperwork to cover their tracks," he says.

Most of the executives believe dismissing people is a regrettable but acceptable practice and an encouraging trend. It should certainly be a last resort, they say, and it must be clearly justifiable. But, unpleasant as this practice is, these executives applaud it as yet another demonstration of management's commitment to loss prevention.

An emphasis on people Also good, say the loss prevention executives, is the current shift toward people as a primary weapon in the battle against shrinkage. As our survey found, retailers are spending the majority (63 percent) of their loss prevention budgets on people-related expenses. Moreover, they have identified employee awareness programs as both the most effective and most commonly used loss prevention "device."

"People, especially a retailer's own employees, are now universally considered the most important factor in loss prevention," says Ernst & Young senior adviser Burnett Donoho. "Without the involvement of your people," says the former president of Marshall Field's, "you simply cannot prevent shrink effectively."

One of the most basic manifestations of "people power" is the presence of sales associates on the selling floor. "The floor people," as one loss prevention director puts it, "are your first and probably best line of defense." Beyond this, employee awareness programs are now as fundamental to loss prevention as locks and chains were 20 years ago. "Companies are putting their faith in awareness, and they're right to do it," says Lew Shealy, VP, Loss Prevention for Eckerd Drug. "You get your best return on investment from awareness."

Sandy Katz, VP, Control for Talbot's, concurs, adding that people—particularly the presence of people on the sales floor—are especially critical to all segments of retail. But he is also seeing a rise in the use of technology, especially in smaller stores, like specialty stores.

One of the most basic manifestations of "people power" is the presence of sales associates on the selling floor. "The floor people," as one loss prevention director puts it, "are your first and probably best line of defense."

Focus on the point of sale In retail companies large and small, the point of sale is one of the most difficult-to-police areas—and a prime area of employee theft. For this reason, loss prevention professionals now regard POS systems as security devices, and as such, they are very popular. These systems were the second most frequently used devices, ranking just behind employee awareness programs. Many loss prevention people are now combining closed circuit television cameras with POS systems to monitor transactions and even generate exception reports.

Employee theft Today, much of the focus in loss prevention—especially when it comes to technical advances—is on employee theft. The reason is simple: dishonest employees inflict the heaviest damage in terms of dollars lost. As our survey found, employees accounted for only seven percent of the apprehensions in 1990 but 38 percent of the dollars recovered.

In recent years, some have questioned whether this kind of dramatic statistic is accurate. Perhaps, they suggest, retailers are simply doing a better job of monitoring and accounting for employee theft. But there was no doubt among the executives we spoke with that the greatest "exposure" is in the area of employee theft. "No question," says Shelley Connors, Director, Loss Prevention, for Best Products. "The greater exposure is with employee theft." For this reason, many companies spend the majority of their loss prevention resources on this area.

Of course, retailers cannot overlook the problem of shoplifting. According to our survey, customers accounted for 93 percent of the apprehensions in 1990. The actual dollars in losses cannot be accurately calculated; however, the total shrinkage of our participants was $1.4 billion at retail, and if customers accounted for at least 60 percent of it, we can estimate that shoplifting accounted for approximately $840 million in losses. Compounding the customer problem is the fact that, according to Lew Shealy, it is more expensive to control shoplifting.

Civil recovery is one popular way to address both employee and customer theft. According to the executives we spoke with, the restitution procedure is an effective deterrent, plus it generates revenue. In many cases, civil restitution revenues are funding the loss prevention program. With the retail economy in a continuing slump, a self-supporting functional area is no small thing.

DEPARTMENT STORES

Shrinkage At retail, shrinkage as a percent of sales decreased by seven percent, from 2.01 percent in 1989 to 1.87 percent in 1990. However, shrinkage in real dollars increased by two percent. The average retail dollars lost per department store in 1990 was $23.8 million.

Shrinkage as a percent of sales declined for all revenue groups, with the exception of department stores with revenues of $100-$399 million. Companies with under $100 million in revenue enjoyed a 17 percent decline, the deepest decline in the segment group.

The department stores' targeted shrink percentage was 1.72 percent—eight percent lower than the actual percentage reported. Most of the companies that had locations that failed to meet their targeted percentage implemented additional loss prevention controls at the location, and had the loss prevention department and/or internal audit/shrinkage control department investigate the cause of the shrinkage.

The high-shrink department was costume jewelry and fashion accessories, at 3.83 percent. This was the lowest "high-shrink" percentage in the survey. The high-shrink department for companies with $1 billion or more in revenue was ladies apparel, at 6.09 percent. The low-shrink department for the segment overall was shoes, at 1.17 percent.

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	23	23	6	6	9	9	2	2	6	6
At Retail										
Total company-average shrinkage percent	1.87% *(23)*	2.01% *(23)*	1.71% *(6)*	2.06% *(6)*	1.78% *(9)*	1.77% *(9)*	2.37% *(2)*	2.77% *(2)*	2.01% *(6)*	2.06% *(6)*
Number of responses in the following ranges:										
Less than 1.50%	4	5	2	1	1	3	-	-	1	1
1.50% to 1.99%	10	10	3	3	6	4	-	-	1	3
2.00% or more	9	8	1	2	2	2	2	2	4	2
Total company-average shrinkage dollars *(In $ thousands)*	$23,790 *(22)*	$23,216 *(22)*	$1,016 *(6)*	$1,274 *(6)*	$3,593 *(8)*	$3,409 *(8)*	$17,593 *(2)*	$19,819 *(2)*	$75,558 *(6)*	$72,899 *(6)*

( ) = Number of responses to this question

Shrinkage by Department in 1990

Shrinkage Percentage at Retail

General Merchandise Departments	Apparel-Juniors	Apparel-Ladies	Apparel-Men	Camera-VCR	Fashion Accessories & Costume Jewelry	Fine Jewelry	Health & Beauty Aids	Radios, Televisions & Stereos	Records, Cassettes, CDs & Videotapes	Shoes	Sporting Goods	Toys, Hobbies & Games
	3.02% *(17)*	3.78 *(19)*	2.69 *(19)*	3.68 *(6)*	3.83 *(18)*	3.07 *(8)*	1.75 *(6)*	2.78 *(8)*	3.45 *(2)*	1.17 *(11)*	2.65 *(1)*	1.44 *(6)*

( ) = Number of responses to this question

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail
All participants	1.72% *(16)*
Participants by 1990 revenue in $ millions:	
Under $100	1.80 *(3)*
$100 to $399	1.65 *(6)*
$400 to $999	1.90 *(2)*
$1,000 or more	1.67 *(5)*

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	17	9
Implement additional security and loss prevention controls at the store	88%	78%
Loss prevention department investigates the cause of shrinkage	82	89
Internal audit/shrinkage control department investigates the cause of shrinkage	82	89
Replace management at the location	41	44
Replace personnel at the location	24	22
Increase frequency of physical inventory procedures at the location	18	11
Other	18	11

Expenses and Capital Expenditures Overall, average loss prevention expenses remained flat from 1989 to 1990. This was generally true for the individual revenue groups as well. However, the department store respondents had the highest expenses as a percent of sales of all the segments in the survey, 0.47 percent. Also, their expenses in real dollars increased by two percent to $5.1 million per company.

People costs accounted for 80 percent of loss prevention expenses, with guards/detectives and other loss prevention employees accounting for 76 percent of the total. Employee guards/detectives accounted for the largest share of those expenses for all revenue groups except companies with less than $100 million in revenue. These department stores spent a greater percentage on their loss prevention departments.

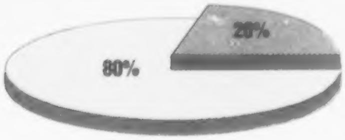
Capital expenditures averaged $644,000 per company, down from an average of $812,000 in 1989. On a same-respondent basis, capital spending decreased by 16 percent in 1990.

Capital expenditures decreased by 40 percent for companies with less than $100 million in revenue; it increased by 319 percent for companies with revenues of $100-$399 million; it increased by two percent for companies with revenues of $399-$999 million; and it decreased by 18 percent for companies with revenues of $1 billion or more.

Some 49 percent of the expenditures were made for CCTV, and 34 percent were made for other electrical equipment. Two revenue groups made their greatest capital expenditures on EAS equipment: companies with revenues below $100 million, and companies with revenues of $100-$399 million.

Breakdown of Security and Loss Prevention Expenses

(Based on 21 responses)



People Cost:	
Employee guards/detectives	48%
External guards/detectives	1
Prevention employees other than guards/detectives	27
Outside services	1
Incentive and reward programs	2
Employee awareness programs	1
Total people cost	**80%**

Other Security Cost:	
Alarms & physical facilities	8%
CCTV lease/rent/depreciation	4
EAS lease/rent/depreciation	6
Other electronic equipment lease/rent/depreciation	1
Other	1
Total other security cost	**20%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	23	23	6	6	9	9	2	2	6	6
Average expenses as a percent of sales	0.47%	0.47%	0.41%	0.40%	0.47%	0.47%	0.47%	0.48%	0.53%	0.53%
	(21)	*(21)*	*(5)*	*(5)*	*(8)*	*(8)*	*(2)*	*(2)*	*(6)*	*(6)*
Number of responses in the following ranges:										
Less than 0.10%	1	1	-	-	1	1	-	-	-	-
0.10% to 0.24%	2	2	1	1	-	-	-	-	1	1
0.25% to 0.49%	8	8	3	3	3	3	1	1	1	1
0.50% and more	10	10	1	1	4	4	1	1	4	4
Average expenses	$5,138	$5,042	$211	$217	$912	$875	$3,259	$3,376	$15,504	$15,175
(in $ thousands)	*(21)*	*(21)*	*(5)*	*(5)*	*(8)*	*(8)*	*(2)*	*(2)*	*(6)*	*(6)*

( ) = Number of responses to this question

Apprehensions Department store employees accounted for approximately six percent of total apprehensions. Last year, retailers apprehended almost 8,000 employees and 121,000 customers. However, 33 percent of the dollars recovered were traced to employee apprehensions; on average, retailers recovered $366,000 at retail per company from employee apprehensions and $730,000 from customer apprehensions. Moreover, another $672,000 per company in unrecovered merchandise was reported stolen by employees.

Security Devices Employee awareness programs were the most commonly utilized security devices; 91 percent of the department stores had these programs. A number of other devices were also utilized by a majority of the respondents, including CCTV, lock boxes, cables and chains, and incentive programs. EAS ink-type tags is the device most likely to be utilized in the future.

CCTV was ranked among the top four security devices by more respondents than any other—67 percent. Other frequently included devices were guards/detectives (61 percent), employee awareness programs (56 percent), and EAS non-ink-type tags (50 percent).

Mirrors were the most frequently ranked device among the four least effective security devices (47 percent). Other frequently low-ranked devices were employee package control programs, limited access areas, lock boxes, cables and chains, and observation booths.

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	23	23	23	23
Total aggregate apprehensions	120,836 *(20)*	103,817 *(19)*	7,973 *(19)*	7,924 *(19)*
Total value of merchandise recovered at retail *(in $ thousands)*	$11,688 *(16)*	$9,560 *(16)*	$5,849 *(16)*	$4,812 *(16)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$7,394 *(11)*	$4,403 *(11)*
Average value of merchandise recovered per apprehension at retail	$212 *(16)*	$144 *(16)*	$609 *(16)*	$525 *(16)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	23	8	18	18	18	17	15	12	12	12
Employee awareness programs	91%	13%	22%	6%	17%	12%	-%	17%	17%	-%
CCTV	87	13	33	17	6	12	7	-	-	8
Lock boxes, cables & chains	87	-	-	17	-	12	-	8	17	17
Incentive programs	78	-	-	-	22	-	13	8	8	-
POS systems	74	25	11	11	-	12	7	-	-	-
Guards/detectives	74	-	11	17	28	6	-	-	-	8
Employee package control programs	74	-	-	-	6	6	7	25	-	8
Observation booths	74	-	-	-	-	12	7	8	25	-
Limited access areas	65	-	-	-	-	-	13	-	25	-
EAS non-ink type tags	65	-	11	22	6	12	7	-	-	-
Security fixtures	51	-	-	-	-	-	-	17	8	8
Exception monitoring software	57	25	6	6	-	12	-	-	-	8
Mirrors	48	-	-	-	6	-	33	-	-	17
Fitting room attendants	43	-	-	-	6	-	-	8	-	8
Pre-employment honesty testing	30	-	-	-	-	6	-	8	-	8
Drug testing	17	13	-	6	-	-	-	-	-	-
EAS ink type tags	17	50	6	-	6	-	-	-	-	8
Subliminal behavior packages	-	-	-	-	-	-	7	-	-	-

Physical Inventory Counting Inventory counting at department stores was performed by store employees within the store at 87 percent of the respondents and by an inventory counting service at 26 percent.

Complete physical inventories were taken annually by 64 percent of the department stores and semi-annually by 36 percent.

The average annual cost of physical inventories was $959,000 per company. The companies with revenues of $1 billion or more estimated spending $3.6 million on average, those with revenues of $400-$999 million spent $590,000, companies with revenues of $100-$399 million spent $186,000 on average, and companies with revenues under $100 million spent an average of $36,000.

Complete store physicals were taken in one day or less at 64 percent of the department stores, and in three days at 14 percent of the companies.

An average of 121 people were utilized for physical inventories. An average of 201 were required for stores with 100,000 square feet or more. Eighty-two percent of the people utilized were store employees and 18 percent were from an inventory counting service.

Cycle counts are not commonly performed at department stores. Only 35 percent reported using this method, compared to 45 percent overall. Only supermarkets (24 percent) used cycle counts less frequently.

Overall, the department stores that did use cycle counts, however, reported significantly lower shrinkage than those companies that didn't use it: 1.81 percent versus 1.91 percent.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	**Under 2,500 Feet**	**2,500 to 7,499 Feet**	**7,500 to 19,999 Feet**	**20,000 to 49,999 Feet**	**50,000 to 99,999 Feet**	**100,000 Feet or More**
Number of responses to this question	22	-	-	1	1	12	8
Number of days per store for a physical inventory							
Less than one day	23%	-	-	-%	-%	42%	-%
One day	41	-	-	-	100	33	50
One-and-a-half days	8	-	-	-	-	8	12
Two days	14	-	-	-	-	8	25
Three days	14	-	-	100	-	8	12
Number of people per store to perform a physical inventory							
Average	121	-	-	10	16	99	201
	(20)			*(1)*	*(1)*	*(12)*	*(6)*
Number of responses in the following ranges:							
Less than 5	-	-	-	-	-	-	-
5 to 10	1	-	-	1	-	-	-
11 to 29	3	-	-	-	1	2	-
30 or more	16	-	-	-	-	10	6

( ) = Number of responses to this question

In the future (one to three years), 73 percent of the department store respondents plan to count inventory by scanning each item's barcode. Forty-one percent plan to report inventory SKU information; 18 percent plan to use in-store final inventory reports; 18 percent plan to conduct more frequent physical inventories, while another 18 percent plan to do it less frequently.

Fourteen percent plan to do cycle counts by SKU; 14 percent plan to do cycle counts by department; and five percent plan to use spreadsheet scheduling for store physical inventories.

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	23	6	9	2	6
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	35%	17%	44%	50%	33%
Cycle counts are not performed	65%	83%	56%	50%	67%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	23	6	9	2	6
At Retail					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	1.81% *(8)*	1.64% *(1)*	1.58% *(4)*	2.20% *(1)*	2.15% *(2)*
Cycle counts are not performed	1.91% *(15)*	1.73% *(5)*	1.93% *(5)*	2.54% *(1)*	1.94% *(4)*

( ) = Number of responses to this question

Turning the Tide at Eckerd Drug

Early in 1990, veteran loss prevention director Lew Shealy took over as VP, Loss Prevention, at Eckerd Drug, a $3.5 billion chain based in Largo, Florida. At the time, the chain lacked a formal program for preventing loss, and its shrinkage percentage was "moving in the wrong direction," says Shealy. Now, after setting up a formalized loss prevention organization, training staff, building awareness, and instituting procedures to monitor shrinkage, Shealy says "the tide is going out."

Faced with a rising shrink percentage, Eckerd Drug set up a formal loss prevention program that leads to the highest levels of company management. Now, the company is turning the tide on shrinkage.

The tide is what? "That phrase is part of our awareness program," says Shealy. "You always need goals and objectives in a loss prevention program, because goals and objectives generate effort. So last year we set our first goal—to stop our shrinkage from growing—and we used the slogan, 'Stop the tide from coming in.'" Eckerd stemmed the tide in January of 1991, and now, Shealy is happy to report, shrink is coming down.

Shealy spent most of his long career in the department store field, and found drug stores to be quite different. For one thing, the Eckerd chain is on the cost method of accounting, which makes it more difficult to pinpoint shrinkage, according to Shealy.

Also, the drug chain was not as systems oriented as most department stores. There was only a limited point-of-sale system, and, as a result, very little back-office support to produce exception reports that identify employee dishonesty.

Beyond that, the company was not oriented toward preventing loss. "The program, what there was of it, was geared toward apprehension," says Shealy. "There was no awareness, no effort to prevent loss."

Organizing for prevention Shealy's challenge, then, was to set up an organization dedicated to preventing loss, and this required a commitment from senior management. Shealy started with a "bottom-line" appeal: "The best way to increase gross margin today is to reduce shrink," he says. "You can't raise prices these days."

The argument is compelling when you consider the numbers. With a $3.5 billion company, a shrinkage reduction of just one-tenth of one percent is equivalent to $3.5 million.

Once he had the attention of senior management, the next step was to establish a loss prevention organization with a reporting structure that led to the highest levels of Eckerd Drug. He started by forming a corporate shrinkage committee. Chaired by Shealy, it includes the company's CEO, president, and CFO—"all the top management," says Shealy.

Next he set up a semi-autonomous regional organization, with each of the company's eight regions forming a loss prevention committee headed by a loss

ECKERD
EXPRESS PHOTO

At Eckerd Drug, the focus is on shrink awareness. But even more important, says Lew Shealy, is the audit.

prevention manager. Each committee would be ultimately responsible for its own programs, but these programs would be periodically reviewed and modified by the corporate committee.

Stressing goals and objectives In helping to design their programs, Shealy stressed goals and objectives and a heightened awareness of shrink. One of the cornerstones of the awareness program is a poster board, which has been installed in all 1,700 Eckerd Drug stores. The boards carry shrink awareness messages, track the store's known losses, and hold a supply of "Shrinkage Busting Suggestion Forms." These forms give associates a chance to participate in the effort to reduce shrink, and if an idea is implemented, the company pays the associate $25. From March 1, when the program was started, to September 30, more than 1,200 associates have sent in forms, and $9,000 has been paid out.

An emphasis on auditing Even more important than awareness, says Shealy, is the importance of auditing for compliance. "Probably the best weapon we have in loss prevention is the audit," he says. "As a result, 50 percent of our loss prevention time is spent on auditing."

This year alone, Eckerd performed 5,000 audits for loss prevention, an average of 2.7 audits per store. It is an additional burden, admits Shealy, but it forces all the stores to comply with procedures and standards, and that is a key to effective loss prevention.

Civil restitution pays dividends In his "new life" with Eckerd Drug, Shealy has also become very enamored of civil restitution. "If I was going back into a department store environment today," he says, "I would go in this direction."

Why? Because it generates revenue. Last year the company recovered over $700,000 through civil recovery, and this year expects to recover $1 million. Also, civil restitution is a practical alternative to prosecution, Shealy believes.

Eckerd takes civil action against about 95 percent of the customers it apprehends. When a manager apprehends someone, he or she gives the shoplifter a civil demand letter requesting $200. To make restitution "user-friendly," Eckerd accepts payment by credit card.

Shealy admits, however, that the professional shoplifter is the biggest enemy in a drug store. In one recently concluded case, professionals were stealing $3,000 per week worth of cosmetics and other items and selling the goods to flea markets.

With these people at least partially in mind, Eckerd is investing in a wireless closed-circuit television system, which will allow security people to monitor a store from off-premises, and an enormous new alarm system. The system, now being installed by ADT, will be the largest proprietary central alarm system in the U.S., and will save the company an estimated $500,000 per year.

Technology, though, is only a tool in the war on theft. To turn the tide on shrinkage, says Shealy, you need a commitment from your people—from senior management down, and your people have to be better business managers.

DRUG CHAINS

Shrinkage At retail, shrinkage was 1.78 percent of sales in 1990, a two percent increase from 1989. This was largely due to the company with revenues of $100-$399 million; its shrinkage increased by 12 percent.

At cost, shrinkage increased by an extraordinary 22 percent, from 1.77 percent to 2.16 percent. This was primarily attributable to two companies that reported increases of 116 percent and 367 percent.

In real dollars, shrink decreased by three percent at retail (based on only two companies) and increased by 14 percent at cost. At retail, the average dollars lost per drug chain was $14.9 million; at cost, it was $36.8 million.

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		Under $100		$100 to $399		$400 to $999		$1,000 or More	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	11	11	2	2	2	2	1	1	6	6
At Retail										
Total company-average shrinkage percent	1.78%	1.75%	-	-	0.94%	0.84%	-	-	2.20%	2.21%
	(3)	*(3)*			*(1)*	*(1)*			*(2)*	*(2)*
Number of responses in the following ranges:										
Less than 1.50%	2	1	-	-	1	1	-	-	1	-
1.50% to 1.99%	-	1	-	-	-	-	-	-	-	1
2.00% or more	1	1	-	-	-	-	-	-	1	1
Total company-average shrinkage dollars *(In $ thousands)*	$14,861	$15,294	-	-	$1,200	$1,000	-	-	$28,521	$29,588
	(2)	*(2)*			*(1)*	*(1)*			*(1)*	*(1)*
At Cost										
Total company-average shrinkage percent	2.16%	1.77%	1.00%	1.00%	1.38%	0.64%	1.68%	0.36%	2.97%	2.87%
	(6)	*(6)*	*(1)*	*(1)*	*(1)*	*(1)*	*(1)*	*(1)*	*(3)*	*(3)*
Number of responses in the following ranges:										
Less than 0.50%	-	1	-	-	-	-	-	1	-	-
0.50% to 1.49%	2	2	1	1	1	1	-	-	-	-
1.50% or more	4	3	-	-	-	-	1	-	3	3
Total company-average shrinkage dollars *(In $ thousands)*	$36,803	$32,263	$680	$710	$1,500	$700	$8,835	$1,907	$86,500	$79,000
	(5)	*(5)*	*(1)*	*(1)*	*(1)*	*(1)*	*(1)*	*(1)*	*(2)*	*(2)*

( ) = Number of responses to this question

The drug chains' targeted shrink at retail was 2.15 percent of sales. At cost, it was 1.74 percent—19 percent lower than the figure actually reported. The targeted shrinkage at retail was based on only two respondents.

If a store failed to meet its targeted goal, the following actions were taken: the loss prevention department investigated the cause of the shrinkage (100 percent); the internal audit department investigated (86 percent); additional loss prevention controls were implemented (86 percent); physical inventories were taken more frequently (43 percent); personnel was replaced at the location (29 percent); and management was replaced at the location (29 percent).

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	2.15% *(2)*	1.74% *(4)*
Participants by 1990 revenue in $ millions:		
Under $100	-	0.50 *(1)*
$100 to $399	-	-
$400 to $999	-	1.70 *(1)*
$1,000 or more	2.15 *(2)*	2.37 *(2)*

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	7	2
Loss prevention department investigates the cause of shrinkage	100%	100%
Implement additional security and loss prevention controls at the store	86	100
Internal audit/shrinkage control department investigates the cause of shrinkage	86	100
Increase frequency of physical inventory procedures at the location	43	-
Replace personnel at the location	29	-
Replace management at the location	29	-
Other	14	-

Shrinkage by Department in 1990

Shrinkage Percentage at Cost

General Merchandise Departments:	Apparel-Juniors	Apparel-Ladies	Apparel-Men	Camera-VCR	Fashion Accessories & Costume Jewelry	Fine Jewelry	Health & Beauty Aids	Pharmacy	Radios, Televisions & Stereos	Records, Cassettes, CDs & Videotapes	Shoes	Sporting Goods	Toys, Hobbies & Games
	-%	-	-	-	-	-	2.05 *(2)*	-0.54 *(2)*	2.60 *(1)*	2.60 *(1)*	-	-	2.00 *(1)*

( ) = Number of responses to this question

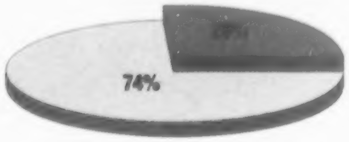
Expenses and Capital Expenditures Drug chains had the lowest loss prevention expenses as a percent of sales in the survey, and they decreased by five percent in 1990. In real dollars, they increased by nine percent. Average expenses were 0.21 percent overall, with a high of 0.33 percent for companies with revenues below $100 million.

Seventy-four percent of these expenses were for people costs, with payroll and charges relating to guards/detectives and other loss prevention employees accounting for 65 percent.

Capital expenditures averaged $539,000 in 1990. On a same-respondent basis, expenditures increased 51 percent, from $399,000 in 1989 to $602,000 in 1990. Expenditures were made primarily for EAS equipment (77 percent), followed by CCTV (14 percent), and security fixtures and other perimeter devices (eight percent).

Breakdown of Security and Loss Prevention Expenses

(Based on 10 responses)



People Cost:	
Employee guards/detectives	13%
External guards/detectives	18
Prevention employees other than guards/detectives	34
Outside services	7
Incentive and reward programs	1
Employee awareness programs	1
Total people cost	**74%**

Other Security Cost:	
Alarms & physical facilities	12%
CCTV lease/rent/depreciation	5
EAS lease/rent/depreciation	8
Other electronic equipment lease/rent/depreciation	-
Other	1
Total other security cost	**26%**

Analysis of Security and Loss Prevention Expenses

	All Participants		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
			Under $100		$100 to $399		$400 to $999		$1,000 or More	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	11	11	2	2	2	2	1	1	6	6
Average expenses as a percent of sales	0.21% *(9)*	0.22% *(9)*	0.33% *(2)*	0.35% *(2)*	0.18% *(2)*	0.18% *(2)*	0.05% *(1)*	0.03% *(1)*	0.22% *(4)*	0.22% *(4)*
Number of responses in the following ranges:										
Less than 0.10%	1	1	-	-	-	-	1	1	-	-
0.10% to 0.24%	5	4	-	-	2	2	-	-	3	2
0.25% to 0.49%	3	4	2	2	-	-	-	-	1	2
0.50% and more	-	-	-	-	-	-	-	-	-	-
Average expenses *(in $ thousands)*	$2,114 *(9)*	$1,931 *(9)*	$235 *(2)*	$230 *(2)*	$205 *(2)*	$200 *(2)*	$253 *(1)*	$152 *(1)*	$4,473 *(4)*	$4,092 *(4)*

( ) = Number of responses to this question

Apprehensions and Dollars Recovered The participating drug chains apprehended 86,100 people in 1990, only 4,300 (or five percent) of which were employees. However, these employees accounted for approximately half of the dollars recovered. Apprehended employees accounted for an average of $130,000 per company and apprehended customers accounted for $122,000 per company. Another $116,000 per company was said to have been stolen by employees and not recovered.

Security Devices Employee awareness programs and guards/detectives were the most frequently utilized security devices; both were used by 91 percent of the respondents.

Exception monitoring software and security fixtures were the two devices most likely to be implemented in the future.

Employee awareness programs were ranked among the top four security devices by 78 percent of the respondents. Other devices frequently cited were POS systems (67 percent) and guards/detectives (55 percent).

The devices most frequently ranked among the least effective devices were mirrors, employee package control programs, and security fixtures.

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	11	11	11	11
Total aggregate apprehensions	81,806 *(11)*	68,693 *(10)*	4,294 *(11)*	4,416 *(10)*
Total value of merchandise recovered at retail *(in $ thousands)*	$1,345 *(11)*	$1,032 *(9)*	$1,299 *(10)*	$920 *(9)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$697 *(6)*	$590 *(6)*
Average value of merchandise recovered per apprehension at retail	$89 *(10)*	$125 *(8)*	$390 *(10)*	$359 *(9)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	11	8	9	9	9	9	8	8	8	6
Employee awareness programs	91%	-%	67%	-%	-%	11%	-%	-%	-%	-%
Guards/detectives	91	-	11	33	-	11	-	-	-	17
CCTV	82	13	-	-	11	22	-	-	25	-
Mirrors	82	-	-	-	22	-	50	-	-	-
POS systems	73	25	-	56	11	-	-	-	-	33
Employee package control programs	73	13	11	-	-	22	13	-	25	17
Security fixtures	73	38	-	-	11	11	13	13	25	-
Limited access areas	64	-	-	-	11	-	-	25	-	-
Pre-employment honesty testing	64	25	-	-	11	11	-	13	-	17
EAS non-ink type tags	45	25	11	-	22	11	-	38	-	-
Incentive programs	36	13	-	-	-	-	-	-	-	-
Exception monitoring software	36	38	-	11	-	-	-	-	-	-
Observation booths	27	-	-	-	-	-	-	13	-	-
Drug testing	27	25	-	-	-	-	-	-	13	-
Lock boxes, cables & chains	9	-	-	-	-	-	-	-	-	-
Fitting room attendants	-	-	-	-	-	-	-	-	-	17
EAS ink type tags	-	-	-	-	-	-	13	-	13	-
Subliminal behavior packages	-	-	-	-	-	-	13	-	-	-

Physical Inventory Counting Store physical inventories were counted by an outside service at 91 percent of the drug chains. Twenty-seven percent reported using store employees from within the store, 18 percent used employees hired for inventory purposes, and 18 percent used store employees from another store.

Complete physicals were taken annually by 22 percent of the drug chains and semi-annually by 56 percent. Eleven percent counted physicals three times a year and another 11 percent counted them quarterly.

Drug chains had the highest average annual cost for physical inventories—$1.6 million per company. Companies with revenues of $1 billion or more spent an average of $2.7 million, the company with revenues of $400-$999 million spent $944,000, the company with revenues of $100-$399 million spent $140,000 and those with revenues under $100 million averaged $50,000.

For 67 percent of the respondents, complete store physical inventories took less than one day. For 22 percent, it took one day. On average, 19 people were used per store, with 68 percent of those people provided by an outside service and 32 percent coming from the store's staff.

In the future, 81 percent of the drug chain respondents plan to conduct cycle counts by department (45 percent) or SKU (36 percent). Sixty-four percent plan to count inventory by scanning each item's barcode; 36 percent plan to report inventory SKU information; 36 percent plan to conduct less frequent physicals; 27 percent plan to conduct more frequent physicals; 27 percent plan to use in-store final inventory reports; and 18 percent plan to use spreadsheet scheduling of store physicals.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	**Under 2,500 Feet**	**2,500 to 7,499 Feet**	**7,500 to 19,999 Feet**	**20,000 to 49,999 Feet**	**50,000 to 99,999 Feet**	**100,000 Feet or More**
Number of responses to this question	9	-	-	6	3	-	-
Number of days per store for a physical inventory							
Less than one day	67%	-	-	83%	33%	-	-
One day	22	-	-	17	33	-	-
One-and-a-half days	11	-	-	-	33	-	-
Two days	-	-	-	-	-	-	-
Number of people per store to perform a physical inventory							
Average	19	-	-	12	31	-	-
	(9)			*(6)*	*(3)*		
Number of responses in the following ranges							
Less than 5	-	-	-	-	-	-	-
5 to 10	3	-	-	3	-	-	-
11 to 29	4	-	-	3	1	-	-
30 or more	2	-	-	-	2	-	-

( ) = Number of responses to this question

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	11	2	2	1	6
Cycle counts are performed rather than complete store physical inventories	10%	-	50%	-	-
Cycle counts are performed in addition to complete store physical inventories	45%	50%	50%	100%	33%
Cycle counts are not performed	45%	50%	-	-	67%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	9	1	2	1	5
At Retail					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	2.02% *(2)*	-	0.94% *(1)*	-	3.10% *(1)*
Cycle counts are not performed	1.30% *(1)*	-	-	-	1.30% *(1)*
At Cost					
Cycle counts are performed rather than complete store physical inventories	1.38% *(1)*	-	1.38% *(1)*	-	-
Cycle counts are performed in addition to complete store physical inventories	2.29% *(2)*	-	-	1.68% *(1)*	2.90% *(1)*
Cycle counts are not performed	2.33% *(3)*	1.00% *(1)*	-	-	3.00% *(2)*

( ) = Number of responses to this question

PRE-EMPLOYMENT HONESTY TESTING

Some 47 percent of our participants used honesty testing in 1990, and 93 percent said it was effective in reducing shrinkage.

Few innovations in loss prevention have stirred more debate than pre-employment honesty testing. On one side are the advocates, who insist that these tests are the best predictors of honesty on the job. On the other side are those people who feel the tests are flawed, or that they violate an individual's right to privacy and even civil rights.

Honesty tests evaluate a candidate's ethical and workforce attitudes. While most experts feel that these tests should not be the sole criteria for evaluating a potential employee, many believe strongly that they screen out the overwhelming majority of candidates prone to theft and/or drug use. Unless lawmakers force them out of existence, as they did the polygraph test, the use of honesty testing seems likely to grow.

There was certainly no lack of enthusiasm for the tests by the loss prevention professionals we surveyed. Some 47 percent of our respondents used them in 1990: 58 percent of the supermarkets, 57 percent of the mass merchant/general merchandisers, 55 percent of the drug chains, 45 percent of the specialty hardliners, 32 percent of the specialty apparel chains, and 30 percent of the department stores.

The larger the company, the more frequently the test was used. It was used by 58 percent of the companies with $1 billion or more in revenue; 52 percent of the companies with revenues between $400-$999 million; 48 percent of the companies with revenues between $100-$399 million; and 35 percent of the companies with revenues below $100 million.

Who gets tested? Eighty-seven percent of the companies who used honesty testing, tested their store employees. Who does the testing? Fifty-nine percent did it in-house, and 46 percent used an outside service. Three companies utilized both.

Some 21 percent of job applicants were determined to be "high risk" as a result of pre-employment honesty testing. This percentage was fairly consistent across all sizes of company, with $1 billion companies reporting a high of 25 percent, and companies with under $100 million in revenue reporting a survey-low of 19 percent.

Once an applicant is identified as high risk, 61 percent of respondents automatically reject him or her, 36 percent consider the applicant if other qualifications exist, and nine percent conduct additional testing.

When asked about the effectiveness of honesty testing, 93 percent of retailers said it was effective in reducing shrinkage, 72 percent said it was effective in reducing employee turnover, and 51 percent said it improved employee productivity.

MASS MERCHANTS/ GENERAL MERCHANDISERS

Shrinkage At retail, shrinkage as a percent of sales declined 17 percent in 1990, from 2.16 percent to 1.80 percent. Declines were noted for all revenue groups except companies with revenues of $400-$999 million. This group suffered a 22 percent increase.

On average, mass merchants lost $45 million at retail due to shrinkage, a 15 percent increase from 1989.

At cost, shrinkage decreased six percent, from 1.13 percent to 1.06 percent. In real dollars, shrinkage at cost declined by nine percent.

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	22	22	3	3	6	6	3	3	10	10
At Retail										
Total company-average shrinkage percent	1.80% *(16)*	2.16% *(16)*	1.56% *(2)*	2.96% *(2)*	1.93% *(5)*	2.20% *(5)*	1.80% *(2)*	1.47% *(2)*	1.78% *(7)*	2.09% *(7)*
Number of responses in the following ranges										
Less than 1.50%	3	3	1	-	1	1	-	1	1	1
1.50% to 1.99%	9	6	-	1	2	2	2	1	5	2
2.00% or more	4	7	1	1	2	2	-	-	1	4
Total company-average shrinkage dollars *(In $ thousands)*	$44,804 *(14)*	$38,808 *(14)*	$301 *(1)*	$501 *(1)*	$4,438 *(5)*	$4,910 *(5)*	$14,105 *(2)*	$10,267 *(2)*	$96,092 *(6)*	$82,954 *(6)*
At Cost										
Total company-average shrinkage percent	1.06% *(3)*	1.13% *(3)*	0.21% *(1)*	0.33% *(1)*	1.53% *(1)*	1.60% *(1)*	-	-	1.45% *(1)*	1.46% *(1)*
Number of responses in the following ranges										
Less than 0.50%	1	1	1	1	-	-	-	-	-	-
0.50% to 1.49%	1	1	-	-	-	-	-	-	1	1
1.50% or more	1	1	-	-	1	1	-	-	-	-
Total company-average shrinkage dollars *(In $ thousands)*	$10,207 *(3)*	$11,242 *(3)*	$125 *(1)*	$189 *(1)*	$2,900 *(1)*	$3,020 *(1)*	-	-	$27,597 *(1)*	$30,519 *(1)*

( ) = Number of responses to this question

The high-shrink department was fashion accessories and costume jewelry, at 9.15 percent. The low-shrink department was toys, hobbies and games, at 1.33 percent.

Seventy-seven percent of the mass merchants had a targeted shrinkage goal, and at retail this goal was 1.67 percent, only seven percent lower than the percentage achieved.

Some 88 percent of the companies that failed to meet their shrinkage goals in the store implemented additional loss prevention controls, and 76 percent directed the loss prevention department to investigate the cause of the shrinkage. For companies that failed to meet their goals in the warehouse, 100 percent directed the internal audit/shrinkage control department to investigate, 89 percent had the loss prevention department investigate, and 67 percent implemented additional loss prevention controls.

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	1.67% *(14)*	1.24% *(2)*
Participants by 1990 revenue in $ millions:		
Under $100	1.63 *(2)*	-
$100 to $399	1.91 *(3)*	1.20 *(1)*
$400 to $999	1.63 *(2)*	-
$1,000 or more	1.59 *(7)*	1.28 *(1)*

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	17	9
Implement additional security and loss prevention controls at the store	88%	67%
Loss prevention department investigates the cause of shrinkage	76	89
Internal audit/shrinkage control department investigates the cause of shrinkage	71	100
Replace management at the location	53	33
Replace personnel at the location	47	22
Increase frequency of physical inventory procedures at the location	41	22
Other	24	22

Shrinkage by Department in 1990

Shrinkage Percentage at Retail

General Merchandise Departments:	Apparel-Juniors	Apparel-Ladies	Apparel-Men	Camera-VCR	Fashion Accessories & Costume Jewelry	Fine Jewelry	Health & Beauty Aids	Pharmacy	Radios, Televisions & Stereos	Records, Cassettes, CDs & Videotapes	Shoes	Sporting Goods	Toys, Hobbies & Games
	1.77% *(14)*	2.07 *(13)*	1.62 *(14)*	3.15 *(11)*	9.15 *(14)*	3.13 *(8)*	2.83 *(13)*	2.78 *(3)*	4.22 *(11)*	3.98 *(11)*	2.40 *(9)*	4.94 *(12)*	1.33 *(14)*

( ) = Number of responses to this question

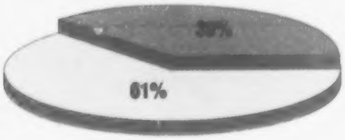
Expenses and Capital Expenditures On a same-respondent basis, loss prevention expenses as a percent of sales remained flat in 1990 at 0.36 percent. In real dollars, all revenue groups noted declines in 1990, except companies with revenues under $100 million and companies with revenues of $100-$399 million.

People costs accounted for 61 percent of loss prevention expenses, with 54 percent going for internal and external guards/detectives and prevention employees other than guards/detectives. For companies with revenues under $100 million, guards/detectives and loss prevention personnel accounted for only 13 percent of total expenses. Some 37 percent of their expenses went for EAS equipment, and 12 percent went for CCTV.

Capital expenditures averaged a survey-high $1,060,000 in 1990, up 16 percent from 1989. Some 45 percent of those expenditures went for EAS equipment, and 30 percent went for CCTV. In 1989, EAS accounted for 28 percent of capital expenditures, and CCTV accounted for 33 percent.

Breakdown of Security and Loss Prevention Expenses

(Based on 18 responses)



People Cost:	
Employee guards/detectives	25%
External guards/detectives	4
Prevention employees other than guards/detectives	25
Outside services	1
Incentive and reward programs	4
Employee awareness programs	2
Total people cost	**61%**

Other Security Cost:	
Alarms & physical facilities	13%
CCTV lease/rent/depreciation	7
EAS lease/rent/depreciation	10
Other electronic equipment lease/rent/depreciation	1
Other	8
Total other security cost	**39%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	22	22	3	3	6	6	3	3	10	10
Average expenses as a percent of sales	0.36% *(20)*	0.36% *(20)*	0.10% *(2)*	0.10% *(2)*	0.48% *(5)*	0.48% *(5)*	0.47% *(3)*	0.51% *(3)*	0.31% *(10)*	0.31% *(10)*
Number of responses in the following ranges:										
Less than 0.10%	4	4	1	1	-	-	1	1	2	2
0.10% to 0.24%	5	5	1	1	2	2	-	-	2	2
0.25% to 0.49%	4	4	-	-	-	-	-	-	4	4
0.50% and more	7	7	-	-	3	3	2	2	2	2
Average expenses *(in $ thousands)*	$5,871 *(20)*	$5,866 *(20)*	$55 *(2)*	$45 *(2)*	$1,257 *(5)*	$1,196 *(5)*	$4,126 *(3)*	$4,176 *(3)*	$9,865 *(10)*	$9,872 *(10)*

( ) = Number of responses to this question

Apprehensions Customers accounted for over 94 percent of total apprehensions but only 64 percent of the dollars recovered. On average, the mass merchants apprehended 10,591 customers and 643 employees per company and recovered an average of $400,000 at retail from customer apprehensions and $265,000 at retail from employee apprehensions per company.

The respondents said apprehended employees stole another $457,000 per company that was not recovered.

The average dollar amount recovered was $331 per employee apprehension and $44 per customer apprehension. Eight times more was recovered per employee apprehension than per customer apprehension.

Security Devices The most commonly utilized security devices were CCTV and employee awareness programs, both at 90 percent. Other commonly used devices were POS systems (85 percent), mirrors (85 percent), and limited access areas (80 percent).

Exception monitoring software is currently being used by 35 percent of the respondents. In the future, some 75 percent of the companies who responded to the question about future plans said they will use this software. Another 38 percent plan to implement drug testing.

Seventy-six percent of the respondents ranked CCTV as one of their four most effective security devices. Sixty-two percent included employee awareness programs among their top four, 48 percent included EAS non-ink-type tags and another 48 percent included guards/detectives.

Even though 85 percent of the respondents are presently utilizing mirrors in their loss prevention program, 70 percent reported this device among their

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	22	22	22	22
Total aggregate apprehensions	180,041 *(17)*	205,758 *(17)*	12,217 *(19)*	13,057 *(19)*
Total value of merchandise recovered at retail *(in $ thousands)*	$6,796 *(17)*	$7,537 *(17)*	$4,771 *(18)*	$5,119 *(17)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$5,939 *(13)*	$4,326 *(13)*
Average value of merchandise recovered per apprehension at retail	$44 *(17)*	$41 *(17)*	$331 *(17)*	$318 *(17)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	20	8	21	19	19	19	20	19	18	18
CCTV	90%	-%	19%	21%	37%	5%	-%	-%	11%	-%
Employee awareness programs	90	-	24	11	16	16	-	-	6	-
Mirrors	85	-	-	-	-	-	45	21	6	-
POS systems	85	25	5	-	16	11	5	-	-	6
Limited access areas	80	-	-	5	-	5	5	21	6	6
Guards/detectives	70	-	10	21	5	16	-	5	-	-
Incentive programs	70	-	10	21	-	16	-	-	6	22
Security fixtures	70	13	5	5	-	-	5	11	11	-
EAS non-ink type tags	65	25	29	-	11	11	-	-	-	11
Employee package control programs	60	-	-	5	-	-	5	11	11	17
Fitting room attendants	60	13	-	-	5	-	10	5	6	-
Lock boxes, cables & chains	55	-	-	-	-	-	-	5	28	11
Observation booths	50	-	-	-	-	-	-	11	-	11
Pre-employment honesty testing	45	13	-	5	-	-	-	5	11	-
Drug testing	40	38	-	-	5	5	15	-	-	-
Exception monitoring software	35	75	-	5	5	16	-	-	-	11
EAS ink type tags	-	25	-	-	-	-	-	5	-	-
Subliminal behavior packages	-	-	-	-	-	-	10	-	-	6

four least effective security devices. Forty percent included lock boxes, cables and chains among their bottom four, another 40 percent included employee package control programs, and 35 percent ranked limited access areas in their bottom four.

Physical Inventories The majority of mass merchants (63 percent) do not perform cycle counts, and most of those who do, utilized them in addition to complete physical inventories.

We analyzed the shrinkage results of companies that perform cycle counts and noted that their results were better than those companies that did not: 1.70 percent vs. 1.85 percent at retail.

Some 95 percent of the companies count complete store physical inventories. Most of the merchants (86 percent) used an inventory counting service to count inventory. Store employees were utilized by 32 percent.

Almost all (86 percent) of the companies took complete physicals on an annual basis. The remaining 14 percent took them on a semi-annual basis.

Some 75 percent of the respondents took one day or less to complete the physical inventory. As would be expected, companies with stores larger than 100,000 square feet took over one day.

The average number of people needed to perform complete physical inventories was 53 people per store. Stores larger than 100,000 square feet needed 95, while stores between 2,500-7,499 feet required only seven.

On average, 59 percent of the people required were from an outside inventory service and 41 percent were employees.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	Under 2,500 Feet	2,500 to 7,499 Feet	7,500 to 19,999 Feet	20,000 to 49,999 Feet	50,000 to 99,999 Feet	100,000 Feet or More
Number of responses to this question	20	-	1	2	7	8	2
Number of days per store for a physical inventory							
Less than one day	35%	-	100%	50%	57%	13%	-
One day	40%	-	-	50%	29%	63%	-
One-and-a-half days	10%	-	-	-	-	13%	50%
Two days	15%	-	-	-	14%	13%	50%
Number of people per store to perform a physical inventory							
Average	53	-	7	15	37	68	95
	(19)		*(1)*	*(1)*	*(7)*	*(8)*	*(2)*
Number of responses in the following ranges							
Less than 5	-	-	-	-	-	-	-
5 to 10	1	-	1	-	-	-	-
11 to 29	5	-	-	1	3	1	-
30 or more	13	-	-	-	4	7	2

( ) = Number of responses to this question

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	22	3	6	3	10
Cycle counts are performed rather than complete store physical inventories	5%	-	-	-	10%
Cycle counts are performed in addition to complete store physical inventories	32%	67%	50%	-	20%
Cycle counts are not performed	63%	33%	50%	100%	70%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	19	3	6	2	8
At Retail					
Cycle counts are performed rather than complete store physical inventories	1.70% *(1)*	-	-	-	1.70% *(1)*
Cycle counts are performed in addition to complete store physical inventories	1.70% *(4)*	2.00% *(1)*	1.44% *(2)*	-	1.92% *(1)*
Cycle counts are not performed	1.85% *(11)*	1.11% *(1)*	2.27% *(3)*	1.80% *(2)*	1.76% *(5)*
At Cost					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	1.06% *(3)*	0.21% *(1)*	1.52% *(1)*	-	1.45% *(1)*
Cycle counts are not performed	-	-	-	-	-

( ) = Number of responses to this question

Quantities were recorded during physicals by 95 percent of the respondents, retail price by 76 percent, department or merchandise class by 71 percent, and SKUs by only 29 percent.

The mass merchant respondents spent an average of $1.5 million per year on physical inventories—second only to drug chains. Companies with $1 billion or more in revenue spent an average of $3.2 million, companies with $400-$999 million in revenue spent $708,000, companies with revenues of $100-$399 spent $208,000, and companies with revenues under $100 million spent an average of $54,000.

In the future (the next one to three years), 60 percent of the mass merchants plan to count inventory by scanning each item's barcode; 30 percent plan to do cycle counts by SKU and 20 percent plan to do cycle counts by department; 45 percent plan to report inventory SKU information; 20 percent plan to conduct less frequent physicals; and 10 percent plan to increase the frequency. Fifteen percent plan to issue in-store final inventory reports; and 10 percent plan to use spreadsheet scheduling of store physicals.

SHRINKAGE INCENTIVE PROGRAMS

More and more companies today are seeking to involve their employees in shrink reduction, and as they do, incentive programs are playing a larger role. The programs take many forms. Sometimes, companies set up confidential phone lines for employees to call with information about dishonesty among their fellow employees. Other times, there might be a mechanism for reporting shoplifters or suggesting ways to prevent loss. But however the system is designed, it is driven by a reward system.

In our survey, 63 percent of the participants had shrinkage reduction incentive programs in 1990. The larger the company, the more likely they were to have them. In terms of segments, 80 percent of the specialty apparel companies had incentive programs, 78 percent of the department store chains had them, and 73 percent of the mass merchant/general merchandisers used them. The least active segment in this area was supermarkets; 44 percent of these companies used incentive programs in 1990.

Sixty-three percent of the participants had shrinkage incentive programs in 1990. The most popular programs combined monetary and non-monetary recognition awards.

The most popular programs were a combination of monetary and non-monetary recognition awards (64 percent). Thirty-two percent of the respondents used monetary awards only. Three percent used recognition awards only.

At 49 percent of the companies, all store level employees were eligible to participate. At 33 percent of the respondents, the eligible employees were all store level personnel other than security and loss personnel.

What was the basis for recognition? Seventy-five percent of the companies rewarded their employees for identifying dishonest employees, 60 percent offered incentives for reporting shoplifters, and 58 percent offered incentives for reducing shrinkage in a department or store.

The average award amount was $176. Companies with revenues below $100 million gave an average of $238. Companies with revenues of $1 billion or more gave an average of $179. In terms of segment, the specialty apparel companies gave the highest average award, $326, and drug chains had the lowest average, $57.

The average cost of these programs was $147,885. Mass merchants averaged a survey-high of $500,000, and drug chains averaged a survey-low of just $2,000.

SPECIALTY APPAREL

Shrinkage At retail, shrinkage as a percent of sales increased on a same respondent basis from 1.84 percent to 2.00 percent. In real dollars, shrink at retail increased from $2,753,000 to $3,114,000—a 13 percent increase. The difference between the overall average shrinkage of $6,219,000 and the same-respondent shrink of $2,753,000 is attributable to one company which failed to provide 1990 data.

Shrinkage at cost decreased from 2.68 percent to 2.25 percent—a 16 percent decrease. In real dollars, shrinkage at cost increased by 46 percent in 1990. This was largely attributable to one company, which suffered a significant increase in real dollar shrink.

The high-shrink department was fashion accessories and costume jewelry, at 4.99 percent. Also high was ladies apparel, at 3.79 percent. The low-shrink department was junior apparel, at 1.87 percent. Also notably low was shoes, at 1.94 percent.

Eighty-six percent of the apparel retailers had a shrinkage goal in 1990. At retail, this goal was 1.54 percent—23 percent below the actual figure of 2.00 percent.

The shrinkage goal at cost was 1.53—32 percent lower than the actual shrinkage.

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		Under $100		$100 to $399		$400 to $999		$1,000 or More	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	21	21	13	13	4	4	3	3	1	1
At Retail										
Total company-average shrinkage percent	2.00%	1.89%	2.11%	1.91%	2.10%	1.81%	1.58%	1.63%	-	2.67%
	(15)	*(16)*	*(9)*	*(9)*	*(3)*	*(3)*	*(3)*	*(3)*		*(1)*
Number of responses in the following ranges:										
Less than 1.50%	4	5	3	3	-	1	[illegible]	1	-	-
1.50% to 1.99%	4	3	3	1	1	1	-	1	-	-
2.00% or more	7	8	3	5	2	1	2	1	-	1
Total company-average shrinkage dollars	$3,114	$6,219	$1,122	$1,071	$6,904	$5,735	$5,395	$5,011	-	$51,269
(In $ thousands)	*(13)*	*(14)*	*(8)*	*(8)*	*(3)*	*(3)*	*(2)*	*(2)*		*(1)*
At Cost										
Total company-average shrinkage percent	2.25%	2.68%	2.72%	3.51%	1.30%	1.03%	-	-	-	-
	(3)	*(3)*	*(2)*	*(2)*	*(1)*	*(1)*				
Number of responses in the following ranges:										
Less than 0.50%	-	-	-	-	-	-	-	-	-	-
0.50% to 1.49%	2	2	1	1	1	1	-	-	-	-
1.50% or more	1	1	1	1	-	-	-	-	-	-
Total company-average shrinkage dollars	$1,885	$1,295	$580	$535	$4,494	$2,815	-	-	-	-
(In $ thousands)	*(3)*	*(3)*	*(2)*	*(2)*	*(1)*	*(1)*				

( ) = Number of responses to this question

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	1.54% *(13)*	1.53% *(3)*
Participants by 1990 revenue in $ millions:		
Under $100	1.66 *(8)*	1.85 *(2)*
$100 to $399	1.75 *(2)*	0.90 *(1)*
$400 to $999	1.08 *(3)*	-
$1,000 or more	-	-

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	18	13
Loss prevention department investigates the cause of shrinkage	89%	100%
Implement additional security and loss prevention controls at the location	78	69
Internal audit/shrinkage control department investigates the cause of shrinkage	44	54
Replace management at the location	44	23
Increase frequency of physical inventory procedures at the location	39	15
Replace personnel at the location	39	31
Other	39	15

Shrinkage by Department in 1990

Shrinkage Percentage at Retail

General Merchandise Departments	Apparel-Juniors	Apparel-Ladies	Apparel-Men	Camera-VCR	Fashion Accessories & Costume Jewelry	Fine Jewelry	Health & Beauty Aids	Pharmacy	Radios, Televisions & Stereos	Records, Cassettes, CDs & Videotapes	Shoes	Sporting Goods	Toys, Hobbies & Games
	1.87% *(3)*	3.79 *(7)*	2.31 *(10)*	-	4.99 *(6)*	-	-	-	-	-	1.94 *(6)*	-	-

( ) = Number of responses to this question

The most common course of action for those companies that did not meet their shrinkage goal was to have their loss prevention department investigate the cause of the shrinkage. Most also implemented additional security and loss prevention controls. Among the controls they implemented were: additional security personnel, additional training, and CCTV.

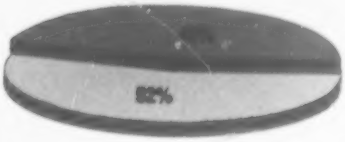
Expenses The specialty apparel companies had average loss prevention expenses of 0.30 percent as a percent of sales. This was lower than all other segments but drug chains and supermarkets. Expenses increased by seven percent in 1990, with the largest increase for companies with revenues of $100-$399 million; they noted a 22 percent increase. In real dollars, expenses increased by 21 percent to an average of $1,260,000.

People costs accounted for a survey-low 52 percent of loss prevention expenses, with prevention employees other than guards/detectives accounting for the largest share of total expenses, 23 percent. However, companies with revenues below $100 million incurred the greatest expenses on EAS equipment—28 percent.

Overall, specialty apparel stores spent significantly more of their budgets on EAS than any other segment (20 percent). Mass merchants were a distant second at 10 percent.

Breakdown of Security and Loss Prevention Expenses

(Based on 20 responses)



People Cost:	
Employee guards/detectives	8%
External guards/detectives	5
Prevention employees other than guards/detectives	23
Outside services	10
Incentive and reward programs	5
Employee awareness programs	1
Total people cost	**52%**

Other Security Cost:	
Alarms & physical facilities	16%
CCTV lease/rent/depreciation	1
EAS lease/rent/depreciation	20
Other electronic equipment lease/rent/depreciation	2
Other	9
Total other security cost	**48%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	21	21	13	13	4	4	3	3	1	1
Average expenses as a percent of sales	0.30% *(19)*	0.28% *(19)*	0.31% *(11)*	0.30% *(11)*	0.28% *(4)*	0.23% *(4)*	0.18% *(3)*	0.18% *(3)*	0.72% *(1)*	0.68% *(1)*
Number of responses in the following ranges:										
Less than 0.10%	2	3	1	1	-	1	1	1	-	-
0.10% to 0.24%	6	6	3	4	2	1	1	1	-	-
0.25% to 0.49%	9	8	6	5	2	2	1	1	-	-
0.50% and more	2	2	1	1	-	-	-	-	1	1
Average expenses *(in $ thousands)*	$1,260 *(19)*	$1,040 *(19)*	$167 *(11)*	$161 *(11)*	$872 *(4)*	$653 *(4)*	$984 *(3)*	$751 *(3)*	$15,664 *(1)*	$13,122 *(1)*

( ) = Number of responses to this question

Capital Expenditures Capital expenditures averaged $432,000 in 1990, 77 percent of which went for EAS equipment. In 1989, this group's expenditures averaged only $127,000, and EAS equipment accounted for only 25 percent of that figure. In 1989, the respondents spent the largest portion of their expenditures on CCTV—35 percent.

Apprehensions Employees accounted for only 11 percent of the apprehensions in 1990, but the dollars recovered from these apprehensions accounted for 34 percent of the total dollars recovered. On average, specialty apparel retailers apprehended 813 customers and 95 employees per company, and recovered an average of $131 per customer apprehension and $815 per employee apprehension. The average dollars recovered per company was $68,000 for customer apprehensions and $30,000 for employee apprehensions. An additional $50,000 per company that went unrecovered was admitted having been stolen by employees.

On a same-respondent basis, total apprehensions increased by 14 percent from 1989 to 1990.

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	21	21	21	21
Total aggregate apprehensions	12,199 *(15)*	10,551 *(15)*	1,711 *(18)*	1,698 *(16)*
Total value of merchandise recovered at retail *(in $ thousands)*	$817 *(12)*	$604 *(12)*	$508 *(17)*	$421 *(15)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$650 *(13)*	$571 *(11)*
Average value of merchandise recovered per apprehension at retail	$131 *(10)*	$117 *(11)*	$815 *(15)*	$1,099 *(14)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices Employee awareness programs and non-ink type EAS tags are currently being utilized by 78 percent of the respondents. Other frequently utilized devices are POS systems and incentive programs (67 percent), and guards/detectives (61 percent). In the future, 45 percent of the retailers plan to utilize pre-employment honesty testing, 27 percent plan to use exception monitoring software, and 27 percent will use incentive programs.

Employee awareness programs were ranked as the most effective security device, receiving 41 percent of the most effective votes and 31 percent of the votes for second most effective device.

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	18	11	17	16	16	15	15	14	13	12
Employee awareness programs	78%	18%	41%	31%	-%	-%	-%	7%	8%	-%
EAS non-ink type tags	78	-	29	6	6	27	-	-	8	26
POS systems	67	18	6	6	25	13	-	7	8	-
Incentive programs	67	27	6	19	-	13	-	-	-	8
Guards/detectives	61	-	12	6	-	13	7	7	8	18
Employee package control programs	56	9	-	13	-	-	13	22	8	-
Exception monitoring software	56	27	-	6	13	7	7	-	15	8
CCTV	50	9	-	-	19	-	7	-	-	8
Mirrors	50	-	-	-	-	7	45	7	-	8
Lock boxes, cables & chains	50	9	-	-	25	7	7	7	22	-
Pre-employment honesty testing	33	45	-	-	6	-	-	7	-	-
Limited access areas	22	-	-	6	-	-	-	7	-	8
Security fixtures	22	-	-	-	-	-	7	-	-	8
EAS ink type tags	22	18	6	-	6	-	-	-	-	-
Drug testing	17	18	-	-	-	7	-	7	8	-
Fitting room attendants	6	-	-	-	-	-	-	7	-	-
Observation booths	6	-	-	-	-	-	-	-	15	-
Subliminal behavior packages	6	9	-	-	-	-	7	15	-	8

Mirrors were ranked least effective by 45 percent of the respondents. Employee package control programs were ranked second least effective by 22 percent, and lock boxes, cables and chains were ranked third least effective by 22 percent. A dissenting vote was cast for the generally popular non-ink type EAS tags: 26 percent ranked it the fourth least effective device.

Physical Inventory Counting Only 37 percent of the specialty apparel retailers performed cycle counts, but those who did had significantly lower shrinkage at retail—1.40 percent vs. 2.49 percent. Those companies that perform cycle counts do it primarily on select merchandise; they do not count all the store inventories through cycle counts on an annual basis.

Complete physical inventories were counted by an inventory counting service at 63 percent of the retailers; store employees within the store perform counts at 42 percent. Store employees within the store were utilized at 75 percent of the companies with revenues between $100-$399 million.

Complete store physical inventories were taken semi-annually by 47 percent of the retailers and annually by 26 percent. All respondents reported taking complete physical inventories. The procedures took less than one day at 83 percent of the respondents. On average, 15 people were required for the counts and 63 percent of the people were from an inventory counting service. The remaining 37 percent were store employees.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	Under 2,500 Feet	2,500 to 7,499 Feet	7,500 to 19,999 Feet	20,000 to 49,999 Feet	50,000 to 99,999 Feet	100,000 Feet or More
Number of responses to this question	18	4	10	2	2	-	-
Number of days per store for a physical inventory							
Less than one day	83%	100%	80%	100%	50%	-	-
One day	11%	-	20%	-	-	-	-
One-and-a-half days	-	-	-	-	-	-	-
Two days	6%	-	-	-	50%	-	-
Number of people per store to perform a physical inventory							
Average	15 *(18)*	9 *(4)*	11 *(10)*	20 *(2)*	47 *(2)*	-	-
Number of responses in the following ranges:							
Less than 5	1	-	1	-	-	-	-
5 to 10	8	3	5	-	-	-	-
11 to 29	6	1	3	2	-	-	-
30 or more	3	-	1	-	2	-	-

( ) = Number of responses to this question

The average annual cost of physical inventory procedures was $345,000. The averages ranged from a low of $83,000 for companies with revenues of under $100 million to a high of $2.5 million for the one respondent with revenues of $1 billion or more.

In the future, 73 percent of the respondents will count merchandise by scanning each item's barcode. Forty-seven percent will record inventory SKU information; 40 percent will perform cycle counts by SKU; and 40 percent will perform cycle counts by department.

Twenty percent of the respondents plan to perform physical inventories more frequently, while another 20 percent plan to perform them less frequently. Twenty percent will utilize in-store physical inventory reports, and 13 percent will use spreadsheet scheduling of store physicals.

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1996 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	19	11	4	3	1
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	37%	45%	25%	33%	-
Cycle counts are not performed	63%	55%	75%	67%	100%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	17	10	4	3	-
At Retail					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	1.40% *(6)*	1.47% *(4)*	1.85% *(1)*	0.64% *(1)*	-
Cycle counts are not performed	2.49% *(8)*	2.84% *(4)*	2.22% *(2)*	2.05% *(2)*	-
At Cost					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	1.04% *(1)*	1.04% *(1)*	-	-	-
Cycle counts are not performed	2.85% *(2)*	4.40% *(1)*	1.30% *(1)*	-	-

( ) = Number of responses to this question

At Kay-Bee Toys, Loss Prevention Only Seems Like Fun and Games

Picture this: thousands of kids a day are streaming through your stores, hungrily eyeing the latest heavily promoted toy or video game cartridge. Manning the aisles and providing your primary line of defense against theft and point-of-sale mismanagement are a limited number of sales associates. A scenario for high shrinkage? Absolutely, unless you manage it aggressively, as Kay-Bee Toy Stores does.

With a high exposure to theft, Kay-Bee Toys is attacking shrink aggressively. To be effective, however, they have had to change the company's culture.

A division of Melville Corp., Kay-Bee Toys is a $1 billion chain of 1,263 toy stores located primarily in shopping malls. According to Dan Burns, the company's loss prevention director, the concerns in toy retailing are similar to those in the specialty apparel segment—both carry trendy product lines and draw young customers who have a tendency to shoplift.

"Toys is a fashion industry," he says. "Products like Nintendo and Cabbage Patch Dolls are heavily promoted through television, and retailers have to time the hot streaks properly. That means we have to carry large quantities and lots of SKUs, which increases our exposure to theft."

Compounding the challenge, he says, is Kay-Bee's mall locations. Youngsters like to roam in malls, making the situation "tougher to control," he says—especially when the mall stores are staffed primarily by sales people aged 17-22.

Shrinkage not a top priority in the '80s

Remarkably, says Burns, Kay-Bee did not fully recognize its vulnerability to shrinkage until recently. In the 1980s, when business was brisk and margins were high, the dollars lost to shrinkage went largely unnoticed. Of course, if there was a major problem at a particular location, they addressed it. But management also had the luxury of taking markups to compensate for significant losses.

The nineties obviously presents a new reality. There is considerable pressure on margins, and shrinkage is impacting the bottom line, even at growing, profitable companies like Kay-Bee. For Burns, who joined the company in late 1990, this has meant attacking shrink aggressively. But it has also meant changing a company culture that has not fully appreciated the shrinkage problem before.

Change starts from the top

Working with senior management, Burns began instituting these cultural changes in January, 1991. His first step was to scale down and redefine the role of loss prevention in the field. The new structure consists of 10 regional loss prevention managers, each responsible for approximately 110 stores.

These loss prevention managers were "empowered" to take complete responsibility for loss prevention in their regions and work closely with the regional sales managers in all aspects of the business. Education, training and prevention now play a larger role than investigation and detection.

T.O.Y.S. awareness Burns' next major initiative was to heighten awareness throughout the organization, and particularly at the sales associate level. "Our associates are our first line of defense," says Burns. "It's critical that we get and hold their attention."

Because most of Kay-Bee's associates are between the ages of 17 and 22, and because there was little awareness training before he arrived, the program includes some very fundamental things. Associates are told to make eye contact with customers, for example. They're also trained to be friendly and ask questions like, "Can I help you?"

These kinds of fundamentals are also communicated on stock-room bulletin boards. Every week, the board carries a new loss prevention message such as, "Never leave back doors unattended."

Beyond the basics, Burns has fashioned a creative awareness program known as TOYS, which stands for Take On Your Shrinkage. Associates wear TOYS buttons, which serve as constant reminders, and every month the loss prevention department holds an awareness activity aimed at the 17-22 year olds.

Back in October, Burns held a "lottery-type" event. All 17,000 Kay-Bee associates were sent a lottery-style ticket that quizzed them on basic loss prevention issues, and also gave them an opportunity to win a "grand" prize. By scratching off one of the four numbers on the ticket, an associate had a chance to win a canvas bag. (There were 300 winners.)

The company also runs loss prevention articles in its internal newsletters, and it sends out attention-grabbing messages in its payroll stuffers. Often these messages are in the form of cartoons. One recent example: Two "bandit-like" characters are talking. One says to the other, "I really like these steal one, get one free sales."

Limited use of technology Loss prevention technologies are used sparingly at Kay-Bee. According to Burns, the technological focus is on the POS. Specifically, they are now utilizing it more fully to produce exception reports and beyond that, to generate a kind of loss prevention "profile" at the store level.

The company does not use EAS, though it will be testing it in 1992. In high-shrink locations, it does use some of the traditional loss prevention devices, like mirrors. But as Burns says, Kay-Bee's primary "device" is its people.

Are they effective? Yes, says Burns. Kay-Bee's shrinkage has historically been in line with the industry standard for hardliners, somewhere between 2.00 and 2.50 percent of sales.

"Shrink can be controlled," says Burns. "You need a commitment from management, a strong organization with careful monitoring and reporting, and most of all, awareness. Fortunately, we have that commitment."

Burns has fashioned a creative awareness program known as TOYS, which stands for Take On Your Shrinkage. Associates wear TOYS buttons, and every month the loss prevention department holds an awareness activity.

SPECIALTY HARDLINES

Shrinkage At retail, shrinkage as a percent of sales remained flat in 1990, at 1.41 percent. On average, companies lost $13.8 million at retail, a three percent increase from 1989.

On a same-respondent basis, shrinkage at cost increased from 0.70 percent of sales in 1989 to 0.76 percent in 1990, a nine percent increase. Overall, the 1990 shrink percentage at cost was 0.73 percent. In real dollars, on a same-respondent basis, shrink increased from $1.9 million to $2.6 million at cost, a 37 percent increase. This increase is primarily attributable to one company, which reported a 60 percent increase in real dollar shrink.

The specialty hardliners had a targeted shrinkage goal at retail of 2.01 percent. This goal was an extraordinary 43 percent higher than the actual shrinkage of 1.41 percent. The shrink goal at cost was 0.71 percent, just three percent below the actual shrinkage reported.

When asked what actions are taken at stores that failed to meet their shrink goals, most respondents said they have their loss prevention department and/or the internal audit/shrinkage control department investigate the cause of the shrinkage. Almost 70 percent reported increasing physical inventory procedures at high-shrink locations, and over 50 percent replace personnel at the locations.

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	22	22	8	8	8	8	5	5	1	1
At Retail										
Total company-average shrinkage percent	1.41%	1.41%	-	-	0.50%	0.47%	1.84%	1.96%	2.40%	2.20%
	(5)	*(5)*			*(2)*	*(2)*	*(2)*	*(2)*	*(1)*	*(1)*
Number of responses in the following ranges:										
Less than 1.50%	3	3	-	-	2	2	1	1	-	-
1.50% to 1.99%	-	-	-	-	-	-	-	-	-	-
2.00% or more	2	2	-	-	-	-	1	1	1	1
Total company-average shrinkage dollars	$13,798	$13,458	-	-	$510	$420	$11,184	$14,525	$45,600	$37,400
(In $ thousands)	*(5)*	*(5)*			*(2)*	*(2)*	*(2)*	*(2)*	*(1)*	*(1)*
At Cost										
Total company-average shrinkage percent	0.73%	0.70%	0.58%	0.66%	0.68%	0.70%	1.25%	0.90%	-	-
	(12)	*(9)*	*(5)*	*(4)*	*(5)*	*(4)*	*(2)*	*(1)*		
Number of responses in the following ranges:										
Less than 0.50%	4	2	2	1	2	1	-	-	-	-
0.50% to 1.49%	7	7	3	3	3	3	1	1	-	-
1.50% or more	1	-	-	-	-	-	1	-	-	-
Total company-average shrinkage dollars	$2,383	$1,887	$224	$226	$1,140	$1,405	$9,644	$9,494	-	-
(In $ thousands)	*(10)*	*(7)*	*(5)*	*(4)*	*(3)*	*(2)*	*(2)*	*(1)*		

( ) = Number of responses to this question

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	2.01% *(5)*	0.71% *(7)*
Participants by 1990 revenue in $ millions:		
Under $100	-	0.30 *(2)*
$100 to $399	1.00 *(1)*	0.68 *(3)*
$400 to $999	2.27 *(3)*	1.18 *(2)*
$1,000 or more	2.25 *(1)*	-

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	13	6
Loss prevention department investigates the cause of shrinkage	85%	67%
Internal audit/shrinkage control department investigates the cause of shrinkage	85	83
Increase frequency of physical inventory procedures at the location	69	67
Implement additional security and loss prevention controls at the location	54	33
Replace personnel at the location	54	67
Replace management at the location	31	33
Other	15	17

Expenses and Capital Expenditures Loss prevention expenses increased by 13 percent as a percent of sales in 1990 and by 12 percent in real dollars. On average, specialty hardliners spent $862,000, or 0.35 percent of sales, to prevent loss.

Companies with revenues between $100-$399 million spent 0.59 percent—a remarkable 69 percent more than the norm. It should be noted that these companies had shrink percentages, both at retail and cost, that were well below average: 0.50 percent and 0.68 percent respectively.

The one specialty hardliner with revenues of $1 billion or more spent only 0.07 percent of sales.

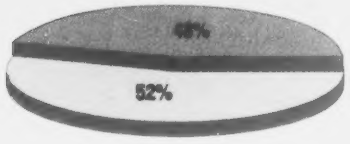
Specialty hardliners tied with the specialty apparel segment for a survey low 52 percent spent on people costs. The largest expense for these companies was alarms and physical facilities, accounting for 38 percent of total expenses. Companies with revenues of $400-$999 million spent the greatest amount on guards/detectives (32 percent), and the respondent with $1 billion or more in annual revenue spent its largest amount, 40 percent, on loss prevention personnel.

Capital expenditures averaged $134,000 in 1990. On a same-respondent basis, expenditures increased an astounding 145 percent from 1989.

Some 54 percent of capital expenditures were made on POS monitoring systems, 16 percent was spent on security fixtures and other perimeter security devices, 12 percent was spent on CCTV, and 11 percent was spent on EAS equipment. This was a dramatically different pattern from 1989, when hardline respondents made 44 percent of their expenditures on security fixtures, 33 percent on CCTV, and none on POS systems.

Breakdown of Security and Loss Prevention Expenses

(Based on 20 responses)



People Cost:	
Employee guards/detectives	18%
External guards/detectives	6
Prevention employees other than guards/detectives	15
Outside services	4
Incentive and reward programs	5
Employee awareness programs	4
Total people cost	**52%**

Other Security Cost:	
Alarms & physical facilities	38%
CCTV lease/rent/depreciation	4
EAS lease/rent/depreciation	2
Other electronic equipment lease/rent/depreciation	2
Other	2
Total other security cost	**48%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	22	22	8	8	8	8	5	5	1	1
Average expenses as a percent of sales	0.35% *(19)*	0.31% *(19)*	0.18% *(6)*	0.15% *(6)*	0.59% *(7)*	0.52% *(7)*	0.26% *(5)*	0.25% *(5)*	0.07% *(1)*	0.08% *(1)*
Number of responses in the following ranges:										
Less than 0.10%	7	7	3	3	2	2	1	1	1	1
0.10% to 0.24%	4	5	1	2	2	2	1	1	-	-
0.25% to 0.49%	4	4	1	1	-	-	3	3	-	-
0.50% and more	4	3	1	-	3	3	-	-	-	-
Average expenses *(in $ thousands)*	$862 *(19)*	$770 *(19)*	$89 *(6)*	$75 *(6)*	$914 *(7)*	$691 *(7)*	$1,630 *(5)*	$1,609 *(5)*	$1,300 *(1)*	$1,300 *(1)*

( ) = Number of responses to this question

Apprehensions Employees accounted for only 14 percent of the total apprehensions in 1990, but 62 percent of the dollars recovered. On average, specialty hardliners apprehended 556 customers and 90 employees per company, and recovered $47,000 per company from customer apprehensions and $77,000 from employee apprehensions. Employees admitted to stealing another $44,000 per company that went unrecovered.

Security Devices CCTV was the most frequently utilized security device (75 percent), followed by employee awareness programs (70 percent). Awareness programs were also included among the top four security devices by more retailers (53 percent) than any other. Incentive programs were second (47 percent), POS systems were third (41 percent), and CCTV and drug testing were tied for fourth (35 percent).

Drug testing and lock boxes, cables and chains were ranked among the four least effective devices by 43 percent of the respondents. CCTV was cited by 36 percent, and limited access areas and security fixtures each received 29 percent of the vote for least effective device.

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	22	22	22	22
Total aggregate apprehensions	7,227 *(13)*	2,698 *(12)*	1,171 *(13)*	864 *(12)*
Total value of merchandise recovered at retail *(in $ thousands)*	$565 *(12)*	$228 *(11)*	$925 *(12)*	$712 *(11)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$441 *(10)*	$501 *(10)*
Average value of merchandise recovered per apprehension at retail	$213 *(10)*	$201 *(9)*	$1,178 *(11)*	$489 *(9)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	20	11	17	16	15	13	13	12	11	11
CCTV	75%	9%	6%	19%	7%	8%	15%	8%	9%	9%
Employee awareness programs	70	27	29	13	13	-	-	-	9	18
POS systems	60	18	-	13	27	8	-	-	18	-
Guards/detectives	60	-	6	13	13	-	8	8	-	9
Lock boxes, cables & chains	60	-	12	6	-	-	8	25	9	9
Limited access areas	55	-	-	6	13	-	8	17	9	-
Drug testing	55	36	6	6	7	23	8	8	9	27
Incentive programs	50	27	6	19	13	15	-	-	-	-
Mirrors	50	-	-	-	-	-	15	-	9	-
Pre-employment honesty testing	50	-	24	-	-	8	15	8	-	-
Security fixtures	45	-	6	-	-	-	8	17	9	-
EAS non-ink type tags	35	9	-	-	-	15	-	8	-	9
Exception monitoring software	35	27	6	6	7	15	-	-	9	9
Observation booths	20	9	-	-	-	-	15	-	-	-
Employee package control programs	15	9	-	-	-	8	-	-	-	-
EAS ink type tags	-	-	-	-	-	-	-	-	-	-
Fitting room attendants	-	-	-	-	-	-	-	-	-	9
Subliminal behavior packages	-	9	-	-	-	-	-	-	9	-

The devices most likely to be implemented in the future are: drug testing programs (36 percent), exception monitoring software (27 percent), employee awareness programs (27 percent) and incentive programs (27 percent).

Physical Inventory Counting The hardlines respondents spent an average of $375,000 annually on physical inventory procedures. The company with revenues of $1 billion or more spent an estimated $1.3 million, companies with revenues of $400-$999 million spent $515,000, companies with revenues of $100-$399 million spent $346,000, and companies with revenues of under $100 million spent an average of $18,000.

One hundred percent of the respondents performed complete physical inventories in 1990. Sixty-five percent of these retailers used store employees within the store to perform store physicals, 35 percent utilized an inventory counting service, and 25 percent used store employees from another store. Fifty-two percent of the retailers performed physicals on an annual basis, and 29 percent performed them semi-annually.

Eighty percent of the respondents counted complete store physicals in one day or less. On average, 28 people were used to count store inventories, with stores less than 2,500 square feet utilizing only two people and stores between 50,000-99,999 square feet utilizing 49. Seventy-two percent of the people were store employees and 28 percent were from an outside inventory service.

Fifty-seven percent of the specialty hardliners performed cycle counts in addition to complete physical inventories. Those companies that used cycle counts noted a lower shrink percentage at cost than those companies that did not use them—0.62 percent vs. 0.96 percent.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	**Under 2,500 Feet**	**2,500 to 7,499 Feet**	**7,500 to 19,999 Feet**	**20,000 to 49,999 Feet**	**50,000 to 99,999 Feet**	**100,000 Feet or More**
Number of responses to this question	20	2	2	6	5	5	-
Number of days per store for a physical inventory							
Less than one day	50%	50%	50%	33%	40%	80%	-
One day	30%	50%	-	33%	40%	20%	-
One-and-a-half days	15%	-	50%	33%	-	-	-
Two days	-	-	-	-	-	-	-
Three days	5%	-	-	-	20%	-	-
Number of people per store to perform a physical inventory							
Average	28	2	14	19	34	49	-
	(20)	*(2)*	*(2)*	*(6)*	*(5)*	*(5)*	
Number of responses in the following ranges:							
Less than 5	3	2	-	-	-	1	-
5 to 10	2	-	1	1	-	-	-
11 to 29	8	-	1	5	2	-	-
30 or more	7	-	-	-	3	4	-

( ) = Number of responses to this question

In the future (the next one to three years), 61 percent of the respondents plan to count inventories by scanning each item's barcode. Fifty-six percent plan to perform cycle counts by SKU; and 11 percent plan to do cycle counts by department.

Thirty-nine percent plan to record inventory SKU information; 39 percent will perform less frequent physical inventories; and 17 percent will perform more frequent physical counts. Thirty-three percent plan to use in-store physical inventory reports; and 11 percent will use spreadsheet scheduling of store physical inventories.

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	Under $100	$100 - $399	$400 - $999	$1,000 or More
Retailers performing cycle counts at the store level					
Number of responses to this question	21	7	8	5	1
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	57%	57%	75%	20%	100%
Cycle counts are not performed	43%	43%	25%	80%	-
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	17	5	7	4	1
At Retail					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	1.07% *(4)*	-	0.50% *(2)*	0.87% *(1)*	2.40% *(1)*
Cycle counts are not performed	2.80% *(1)*	-	-	2.80% *(1)*	-
At Cost					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	0.62% *(8)*	0.64% *(4)*	0.61% *(4)*	-	-
Cycle counts are not performed	0.96% *(4)*	0.33% *(1)*	1.00% *(1)*	1.25% *(2)*	-

( ) = Number of responses to this question

SUPERMARKETS

Shrinkage At retail, supermarket shrinkage increased as a percent of sales, from 0.75 percent to 0.81 percent, an eight percent increase. In real dollars, shrink losses increased 15 percent. The average loss per company was $6.6 million at retail in 1990, up from $5.7 million in 1989.

Shrinkage at cost decreased as a percent of sales, from 1.03 percent to 0.97 percent, a six percent decline. However, these figures were based on only four companies, and a shrink decline was noted for only the company with revenues of $1 billion or more. In real dollars, shrinkage at cost declined, from $38.3 million per company to $29.5 million, a 23 percent drop.

Produce was the high-shrink department for supermarkets, at 3.60 percent of sales at retail. Health and beauty aids were also high, at 1.30 percent. The low-shrink department was dairy, at 0.29 percent.

The supermarkets had an extraordinarily low shrinkage goal at retail of 0.46 percent, and fell short of this goal by 43 percent. The shrinkage target at cost was 0.71 percent, some 27 percent below the actual shrink percentage of 0.97 percent.

As is true generally, the majority of supermarket retailers who fail to meet their shrinkage goals have the loss prevention department investigate the cause,

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	19	19	3	3	3	3	6	6	7	7
At Retail										
Total company-average shrinkage percent	0.81%	0.75%	0.58%	0.64%	0.66%	0.65%	1.00%	0.84%	0.73%	0.73%
	(10)	*(10)*	*(1)*	*(1)*	*(2)*	*(2)*	*(4)*	*(4)*	*(3)*	*(3)*
Number of responses in the following ranges:										
Less than 1.50%	9	9	1	1	2	2	4	4	2	2
1.50% to 1.99%	1	1	-	-	-	-	-	-	1	1
2.00% or more	-	-	-	-	-	-	-	-	-	-
Total company-average shrinkage dollars	$6,553	$5,693	$230	$274	$1,469	$1,212	$5,361	$4,035	$17,183	$16,202
(In $ thousands)	*(9)*	*(9)*	*(1)*	*(1)*	*(2)*	*(2)*	*(4)*	*(4)*	*(2)*	*(2)*
At Cost										
Total company-average shrinkage percent	0.97%	1.03%	-	-	0.45%	0.27%	1.10%	0.98%	1.24%	1.89%
	(4)	*(4)*			*(1)*	*(1)*	*(2)*	*(2)*	*(1)*	*(1)*
Number of responses in the following ranges:										
Less than 0.50%	2	2	-	-	1	1	1	1	-	-
0.50% to 1.49%	1	-	-	-	-	-	-	-	1	-
1.50% or more	1	2	-	-	-	-	1	1	-	1
Total company-average shrinkage dollars	$29,542	$38,259	-	-	$722	$374	$7,722	$6,332	$102,001	$140,000
(In $ thousands)	*(4)*	*(4)*			*(1)*	*(1)*	*(2)*	*(2)*	*(1)*	*(1)*

( ) = Number of responses to this question

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	0.46% *(8)*	0.71% *(4)*
Participants by 1990 revenue in $ millions:		
Under $100	-	-
$100 to $399	0.50 *(2)*	0.45 *(1)*
$400 to $999	0.44 *(3)*	0.95 *(2)*
$1,000 or more	0.46 *(3)*	0.50 *(1)*

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	15	7
Loss prevention department investigates the cause of shrinkage	87%	100%
Implement additional security and loss prevention controls at the store	73	71
Increase frequency of physical inventory procedures at the location	67	57
Replace personnel at the location	67	43
Replace management at the location	67	29
Internal audit/shrinkage control department investigates the cause of shrinkage	60	43
Other	27	14

Shrinkage by Department in 1990

Shrinkage Percentage at Retail

Dairy	Grocery	Health & beauty aids	Meats	Pharmacy	Produce	Other grocery
0.29%	0.53	1.30	0.79	[illegible]	3.60	0.34
(5)	*(10)*	*(5)*	*(5)*		*(5)*	*(4)*

( ) = Number of responses to this question

and/or they implement additional loss prevention controls at the store. Among the controls frequently implemented were increased physical inventories and CCTV. In addition, some 67 percent of the respondents replace personnel at the store, and 67 percent replace management at the store. Forty-three percent replace personnel at the warehouse/DC location, and 29 percent replace management at the warehouse/DC.

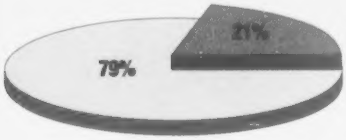
Expenses and Capital Expenditures Loss prevention expenses increased by four percent, to 0.24 percent of sales. In real dollars, the companies spent an average of $1.9 million on loss prevention, an eight percent increase from 1989.

The supermarkets spent 79 percent of the loss prevention budgets on people-related expenses, with 63 percent going for guards/detectives and other loss prevention personnel. Companies with revenues below $100 million spent the largest portion of their budgets, 46 percent, on outside services.

The supermarkets' capital expenditures averaged $172,000 in 1990. On a same-respondent basis, spending increased 37 percent from 1989. Some 32 percent of the 1990 expenditures went for CCTV, 27 percent went for security fixtures and other perimeter devices, and 25 percent went for POS monitoring systems.

Breakdown of Security and Loss Prevention Expenses

(Based on 17 responses)



People Cost:	
Employee guards/detectives	27%
External guards/detectives	11
Prevention employees other than guards/detectives	25
Outside services	12
Incentive and reward programs	2
Employee awareness programs	2
Total people cost	**79%**

Other Security Cost:	
Alarms & physical facilities	11%
CCTV lease/rent/depreciation	3
EAS lease/rent/depreciation	-
Other electronic equipment lease/rent/depreciation	1
Other	6
Total other security cost	**21%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	19	19	3	3	3	3	6	6	7	7
Average expenses as a percent of sales	0.24% *(19)*	0.23% *(19)*	0.22% *(3)*	0.18% *(3)*	0.51% *(3)*	0.45% *(3)*	0.20% *(6)*	0.19% *(6)*	0.16% *(7)*	0.18% *(7)*
Number of responses in the following ranges:										
Less than 0.10%	5	6	-	-	1	1	1	2	3	3
0.10% to 0.24%	8	6	2	2	-	-	3	2	3	2
0.25% to 0.49%	4	6	1	1	-	1	2	2	1	2
0.50% and more	2	1	-	-	2	1	-	-	-	-
Average expenses *(in $ thousands)*	$1,941 *(19)*	$1,791 *(19)*	$109 *(3)*	$83 *(3)*	$1,121 *(3)*	$780 *(3)*	$1,120 *(6)*	$984 *(6)*	$3,782 *(7)*	$3,650 *(7)*

( ) = Number of responses to this question

Apprehensions Customer apprehensions declined by six percent in 1990, while employee apprehensions increased by eight percent. On average, there were 2,563 customer apprehensions in 1990 and 246 employee apprehensions per company.

While employees accounted for only eight percent of the apprehensions, they accounted for more than 30 percent of the dollars recovered. The average dollars recovered per company was $86,000 from customer apprehensions and $45,000 from employee apprehensions.

The supermarkets reported that, on average, an additional $139,000 was stolen by employees but not recovered.

Security Devices All the supermarkets used guards/detectives in their loss prevention programs. Guards/detectives were also rated the most effective security device, with 81 percent of the respondents including them among their top-four security devices. Employee awareness programs were the second most popular device, and CCTV and mirrors were tied for number three.

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	19	19	19	19
Total aggregate apprehensions	38,439 *(15)*	40,719 *(15)*	3,442 *(14)*	3,182 *(14)*
Total value of merchandise recovered at retail *(in $ thousands)*	$1,210 *(14)*	$726 *(14)*	$496 *(11)*	$354 *(10)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$1,252 *(9)*	$1,111 *(7)*
Average value of merchandise recovered per apprehension at retail	$111 *(14)*	$110 *(14)*	$166 *(11)*	$212 *(10)*

( ) = Number of responses to this question

NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	18	13	15	16	16	16	14	13	14	14
Guards/detectives	100%	-%	33%	31%	19%	-%	-%	-%	7%	-%
Employee awareness programs	83	15	13	6	13	13	14	-	7	14
CCTV	78	15	20	31	13	6	14	8	-	-
Mirrors	78	-	-	-	6	-	21	23	14	14
Pre-employment honesty testing	61	23	-	19	6	19	7	15	-	7
Security fixtures	61	-	-	-	6	-	14	-	14	7
Lock boxes, cables & chains	56	-	7	-	-	-	7	8	7	7
Drug testing	56	15	-	6	-	13	-	-	7	7
Employee package control programs	56	-	-	-	-	-	14	31	-	-
Limited access areas	50	-	-	-	-	6	-	8	14	7
Exception monitoring software	50	23	-	13	-	13	-	-	14	14
POS systems	44	15	7	-	13	6	-	8	-	7
Observation booths	44	-	-	-	13	13	7	-	7	7
Incentive programs	39	15	13	-	-	6	-	-	-	7
EAS non-ink type tags	22	8	7	-	-	6	-	8	-	-
EAS ink type tags	17	-	-	-	6	-	-	-	7	-
Fitting room attendants	6	-	-	-	6	-	-	-	-	-
Subliminal behavior packages	6	8	-	-	-	-	-	-	-	-

Mirrors were rated the least effective security device, with 67 percent of the respondents ranking them among the bottom four. Surprisingly, 78 percent of the supermarkets are still utilizing mirrors.

Exception monitoring software and pre-employment honesty testing were the two devices most likely to be implemented in the future. Each was specified by 23 percent of the respondents.

Physical Inventory Counting Eighty-one percent of the respondents took less than one day to perform physical inventories and 13 percent required one day. The supermarket respondents required an average of 30 people. Some 76 percent of the personnel utilized were from an outside service and 24 percent were employees.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	Under 2,500 Feet	2,500 to 7,499 Feet	7,500 to 19,999 Feet	20,000 to 49,999 Feet	50,000 to 99,999 Feet	100,000 Feet or More
Number of responses to this question	16	-	-	-	11	4	1
Number of days per store for a physical inventory							
Less than one day	81%	-	-	-	91%	75%	-
One day	13%	-	-	-	9%	25%	-
One-and-a-half days	-	-	-	-	-	-	-
Two days	6%	-	-		-	-	100%
Number of people per store to perform a physical inventory							
Average	30 *(15)*				14 *(10)*	36 *(4)*	175 *(1)*
Less than 5					-	-	-
5 to 10	3				3	-	-
11 to 29	9				7	2	-
30 or more	3					2	1

( ) = Number of responses to this question

All the respondents took complete physical inventories during the year. An inventory service was utilized by 89 percent of the supermarkets, and 67 percent performed complete physical counts on a quarterly basis.

The estimated average cost of physical inventory procedures in 1990 was $339,000. The companies with revenues of $1 billion or more estimated spending $611,000 on average, companies with revenues of $400-$999 million averaged $306,000, companies with revenues of $100-$399 million spent $140,000 on average, and companies with revenues of less than $100 million spent an average of $42,000.

Only 24 percent of the retailers performed cycle counts in 1990. Also, contrary to other segments analyzed, the supermarkets who performed cycle counts had a higher shrinkage percentage than those that did not. The companies that performed cycle counts normally counted the entire inventory in this way 12 times or more per year.

In the next three years, 40 percent of the respondents plan to count inventory by scanning each item's barcode. Forty percent plan to utilize in-store final inventory reports, 40 percent plan to perform more frequent physical inventories, and 20 percent plan to conduct less.

Twenty-seven percent of the retailers plan to use spreadsheet scheduling of store physicals; 20 percent plan to do cycle counts by SKU; and 20 percent plan to do cycle counts by department or merchandising class.

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	Under $100	$100 - $399	$400 - $999	$1,000 or More
Retailers performing cycle counts at the store level					
Number of responses to this question	17	2	3	6	6
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	24%	-	67%	17%	17%
Cycle counts are not performed	76%	100%	33%	83%	83%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	13	1	3	6	3
At Retail					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	0.93% *(3)*	-	0.66% *(2)*	1.49% *(1)*	-
Cycle counts are not performed	0.88% *(6)*	0.58% *(1)*	-	0.84% *(3)*	1.08% *(2)*
At Cost					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	-	-	-	-	-
Cycle counts are not performed	0.97% *(4)*	-	0.45% *(1)*	1.10% *(2)*	1.24% *(1)*

( ) = Number of responses to this question

OVERALL FINDINGS

Note: The overall findings exclude the supermarket retailers who participated in the survey. A separate segment analysis was performed for the supermarket industry and is included in the report.

At retail, overall shrinkage as a percent of sales decreased on a same respondent basis by six percent in 1990, from 2.22 percent to 2.08 percent. Shrinkage declined for each revenue group as well, with the greatest decline occurring among companies with revenues of $100-$399 million; these companies' shrinkage dipped by 12 percent.

At cost, shrinkage decreased, from 1.73 percent to 1.58 percent. On a same-respondent basis, shrinkage decreased from 1.73 to 1.68, a three percent decline. Shrinkage at cost increased, however, for all companies with revenues of $100 million or more.

In 1990, total dollars lost to shrinkage at retail was $1.4 billion (based on 70 companies). The average loss was $20.1 million, up from $19 million in 1989. The total lost at cost averaged $10.8 million, up from $9.1 million in 1989.

On a same-respondent basis, real dollar shrinkage at cost increased by 23 percent; at retail, it increased by eight percent.

The highest shrinkage departments for general merchandise were fashion accessories and costume jewelry, at 6.45 percent. The low-shrink department was shoes, at 1.65 percent.

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	136	136	50	50	38	38	19	19	29	29
At Retail										
Total company-average shrinkage percent	2.08% *(79)*	2.23% *(80)*	1.85% *(25)*	1.90% *(25)*	2.46% *(25)*	2.79% *(25)*	1.84% *(12)*	1.89% *(12)*	2.02% *(17)*	2.14% *(18)*
Number of responses in the following ranges										
Less than 1.50%	24	24	11	9	6	9	4	4	3	2
1.50% to 1.99%	24	22	7	6	9	7	2	3	6	6
2.00% or more	31	34	7	10	10	9	6	5	8	10
Total company-average shrinkage dollars *(In $ thousands)*	$20,106 *(70)*	$19,007 *(71)*	$1,176 *(22)*	$1,210 *(22)*	$4,745 *(22)*	$4,979 *(22)*	$12,196 *(11)*	$12,470 *(11)*	$76,201 *(15)*	$67,261 *(16)*
At Cost										
Average shrinkage percent	1.58% *(36)*	1.73% *(32)*	1.73% *(18)*	2.13% *(16)*	1.07% *(9)*	1.05% *(8)*	1.39% *(3)*	0.63% *(2)*	2.01% *(6)*	1.97% *(6)*
Number of responses in the following ranges										
Less than 0.50%	8	7	5	4	2	1	-	1	1	1
0.50% to 1.49%	15	15	8	8	5	5	1	1	1	1
1.50% or more	13	10	5	4	2	2	2	-	4	4
Total company-average shrinkage dollars *(In $ thousands)*	$10,784 *(31)*	$9,054 *(27)*	$444 *(17)*	$377 *(15)*	$2,053 *(6)*	$1,868 *(5)*	$9,374 *(3)*	$5,701 *(2)*	$57,261 *(5)*	$43,612 *(5)*

( ) = Number of responses to this question

Retailers: Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	1.84% *(64)*	1.15% *(24)*
Participants by 1990 revenue in $ millions:		
Under $100	1.61 *(18)*	0.92 *(11)*
$100 to $399	2.43 *(17)*	1.01 *(6)*
$400 to $999	1.62 *(13)*	1.35 *(3)*
$1,000 or more	1.66 *(16)*	1.84 *(4)*

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	98	55
Loss prevention department investigates the cause of shrinkage	80%	82%
Implement additional security and loss prevention controls at the location	79	64
Internal audit/shrinkage control department investigates the cause of shrinkage	67	73
Increase frequency of physical inventory procedures at the location	50	29
Replace personnel at the location	43	25
Replace management at the location	41	20
Other	24	15

[illegible]

Shrinkage Percentage at Retail

General Merchandise Departments	Apparel-Juniors	Apparel-Ladies	Apparel-Men	Camera-VCR	Fashion Accessories & Costume Jewelry	Fine Jewelry	Health & Beauty Aids	Pharmacy	Radios, Televisions & Stereos	Records, Cassettes, CDs & Videotapes	Shoes	Sporting Goods	Toys, Hobbies & Games
	2.42% *(36)*	3.22 *(41)*	2.32 *(46)*	3.28 *(19)*	6.45 *(43)*	3.10 *(16)*	2.78 *(21)*	3.58 *(4)*	3.51 *(22)*	3.88 *(16)*	1.65 *(30)*	4.33 *(16)*	1.84 *(27)*

( ) = Number of responses to this question

Some 74 percent of retailers reported that they had a targeted shrinkage goal, and the larger the company the more likely they were to have a goal. What was the goal? At retail, it was 1.84 percent. At cost, it was 1.15 percent. The shrinkage goal at retail was 12 percent below the actual shrinkage reported. The at-cost goal was 27 percent below the actual shrink percentage.

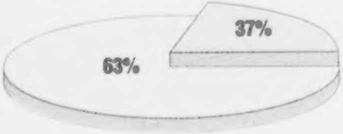
Companies that did not meet their shrinkage goals were most likely to have the loss prevention department investigate the cause of the shrinkage. The next most popular step was to implement additional loss prevention controls, followed by an investigation by the internal audit/shrinkage control department.

Expenses and Capital Expenditures On a same-respondent basis, loss prevention expenses as a percent of sales increased to 0.34 percent in 1990 from 0.33 percent in 1989, a three percent rise. Companies with revenues of $100 million-$399 million had the highest expenses at 0.41 percent. Department store respondents had the highest expenses as a percent of sales—0.47 percent—and drug chains had the lowest expenses at 0.21 percent.

People costs accounted for the lion's share of loss prevention expenses—63 percent. The segment with the highest people-related expenses was department stores, at 80 percent. The specialty apparel and specialty hardlines

Breakdown of Security and Loss Prevention Expenses

(Based on 120 responses)



People Cost:	
Employee guards/detectives	20%
External guards/detectives	8
Prevention employees other than guards/detectives	26
Outside services	4
Incentive and reward programs	3
Employee awareness programs	2
Total people cost	**63%**

Other Security Cost:	
Alarms & physical facilities	19%
CCTV lease/rent/depreciation	4
EAS lease/rent/depreciation	8
Other electronic equipment lease/rent/depreciation	1
Other	5
Total other security cost	**37%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	136	136	50	50	38	38	19	19	29	29
Average expenses as a percent of sales	0.34% *(118)*	0.33% *(117)*	0.31% *(38)*	0.30% *(38)*	0.41% *(34)*	0.39% *(34)*	0.30% *(19)*	0.31% *(18)*	0.34% *(27)*	0.34% *(27)*
Number of responses in the following ranges:										
Less than 0.10%	23	23	9	9	5	6	4	4	5	4
0.10% to 0.24%	32	32	9	11	11	10	4	4	8	7
0.25% to 0.49%	35	35	15	14	7	7	7	6	6	8
0.50% and more	28	27	5	4	11	11	4	4	8	8
Average expenses *(in $ thousands)*	$2,787 *(118)*	$2,720 *(117)*	$182 *(39)*	$172 *(39)*	$801 *(33)*	$708 *(33)*	$2,079 *(19)*	$2,066 *(18)*	$9,477 *(27)*	$9,295 *(27)*

( ) = Number of responses to this question

respondents had a survey low of 52 percent. For companies with revenues of $1 billion or more, people costs accounted for 74 percent of loss prevention expenses. For companies with revenues below $100 million, however, "other" security costs accounted for 56 percent of loss prevention expenses, with the largest portion, 29 percent, going for alarms and physical facilities.

Capital expenditures averaged $522,000 per company (based on 90 companies) in 1990. On a same-respondent basis, capital expenditures increased by 23 percent. Mass merchant/general merchandise retailers had the highest average capital expenditures, $1.1 million, and specialty hardliners had the lowest average, $134,000. EAS equipment accounted for the greatest percentage of overall capital expenditures, 39 percent. CCTV accounted for 29 percent, POS systems accounted for 11 percent, security fixtures accounted for 10 percent, and other electronic equipment accounted for eight percent.

Apprehensions The respondents apprehended a total of 436,000 people in 1990—406,000 customers and 30,000 employees. Respondents apprehended an average of 4,365 customers and 299 employees per company. The average value of merchandise recovered at retail, however, was $255,000 per company from customer apprehensions, and $164,000 per company from employee apprehensions.

Employees, then, accounted for only about seven percent of the apprehensions but approximately 38 percent of the dollars recovered.

Also, employees admitted to stealing another $241,000 at retail per company that was not recovered.

Security Devices The most frequently used security device was employee awareness programs (83 percent). This was followed by POS systems (72 percent), closed circuit television (71 percent), guards/detectives (63 percent), and incentive programs (63 percent).

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	136	136	136	136
Total aggregate apprehensions	405,988 *(93)*	394,410 *(89)*	29,920 *(100)*	30,199 *(94)*
Total value of merchandise recovered at retail *(in $ thousands)*	$21,662 *(85)*	$19,327 *(81)*	$14,611 *(89)*	$13,178 *(85)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$16,632 *(69)*	$11,730 *(63)*
Average value of merchandise recovered per apprehension at retail	$184 *(79)*	$223 *(76)*	$730 *(85)*	$625 *(80)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	126	64	112	108	107	102	95	86	81	78
Employee awareness programs	83%	14%	35%	14%	9%	8%	1%	3%	7%	4%
POS systems	72	19	9	13	16	10	4	5	6	5
CCTV	71	9	13	10	15	8	5	5	9	5
Guards/detectives	63	-	11	12	8	10	4	3	2	9
Incentive programs	63	14	4	9	11	13	2	5	6	8
Mirrors	58	2	-	1	3	2	38	7	4	4
Lock boxes, cables & chains	55	2	3	6	8	4	2	12	15	9
Limited access areas	54	-	-	6	5	1	8	10	10	5
EAS non-ink type tags	49	8	13	6	7	12	2	5	2	8
Security fixtures	47	8	2	1	1	3	5	9	10	5
Employee package control programs	46	5	1	3	2	6	5	10	6	8
Pre-employment honesty testing	44	19	4	5	3	7	3	9	2	5
Exception monitoring software	40	38	3	8	5	8	2	-	4	6
Observation booths	31	2	-	-	-	2	4	5	7	4
Drug testing	29	25	1	4	4	6	4	3	5	5
Fitting room attendants	19	2	-	-	2	-	2	3	1	5
EAS ink type tags	10	14	2	-	2	1	1	2	1	1
Subliminal behavior packages	1	8	-	-	-	-	5	2	1	4
Other	8	-	-	4	-	1	-	-	-	-

The devices most likely to be implemented in the future are exception monitoring software (38 percent), drug testing (25 percent), pre-employment honesty testing (19 percent), and POS systems (19 percent). These devices are already in use at no less than 29 percent of the companies, so they figure to be very widely used in the future.

The security device rated most effective was employee awareness programs, followed by CCTV. The device rated least effective was mirrors.

Physical Inventory Counting There was a strong correlation between the performance of cycle counts and shrink reduction. Forty-three percent of respondents said they did cycle counts in addition to complete physical inventories, and for those companies, shrinkage as a percent of sales was 1.96 percent at retail and 1.05 percent at cost. Shrinkage for those companies that did not do cycle counts was 2.19 percent at retail and 2.29 percent at cost. This finding was generally consistent for all retail segments and sizes of companies.

Ninety-eight percent of the respondents performed complete physical inventories. Fifty-three percent used inventory counting services to perform physical inventories, and 53 percent used store employees from within the store. On average, the stores used 44 people to perform physicals, and 33 percent of these people were from outside services.

Fifty-one percent of the respondents took complete physicals in less than one day, and another 28 percent took it in one day. Only four percent took three days, the maximum period of time reported for physicals.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	Under 2,500 Feet	2,500 to 7,499 Feet	7,500 to 19,999 Feet	20,000 to 49,999 Feet	50,000 to 99,999 Feet	100,000 Feet or More
Number of responses to this question	125	12	25	26	22	29	11
Number of days per store for a physical inventory							
Less than one day	51%	75%	64%	65%	45%	38%	9%
One day	28%	25%	16%	19%	32%	41%	36%
One-and-a-half days	8%	-	12%	8%	5%	7%	18%
Two days	8%	-	8%	-	9%	10%	27%
Two-and-a-half-days	1%	-	-	4%	-	-	-
Three days	4%	-	-	4%	9%	3%	9%
Number of people per store to perform a physical inventory							
Average	44 *(122)*	6 *(12)*	9 *(25)*	17 *(25)*	49 *(22)*	75 *(29)*	162 *(9)*
Number of responses in the following ranges:							
Less than 5	14	6	6	1	-	1	-
5 to 10	24	4	13	7	-	-	-
11 to 29	32	2	5	14	7	4	-
30 or more	52	-	1	3	15	24	9

( ) = Number of responses to this question

Forty-nine percent of the retailers took complete physical inventories annually and 35 percent took it semi-annually. Sixteen percent took complete physicals three times a year or more.

The average annual cost was $886,000. Companies with revenues of $1 billion or more averaged $3,075,000, companies with revenues of $400-$999 million spent $639,000, companies with revenues of $100-$399 million spent $320,000, and companies with revenues under $100 million averaged $93,000 annually.

In the future, 61 percent of the respondents plan to count inventory by scanning each item's barcode. Thirty-eight percent plan to record inventory SKU information; 25 percent plan to do less frequent physicals, while 16 percent plan to increase them.

Thirty percent of the retailers plan to do cycle counts by SKU; 22 percent plan to use in-store final inventory reports; 21 percent plan to do cycle counts by department or merchandising class; and 14 percent plan to use spreadsheet scheduling of store physicals.

Analysis of Cycle Counts Performed at the Store

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	132	47	38	19	28
Cycle counts are performed rather than complete store physical inventories	2%	-	3%	-	4%
Cycle counts are performed in addition to complete store physical inventories	43%	45%	50%	42%	32%
Cycle counts are not performed	55%	55%	47%	58%	64%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	113	42	34	15	22
At Retail					
Cycle counts are performed rather than complete store physical inventories	1.70% *(1)*	-	-	-	1.70% *(1)*
Cycle counts are performed in addition to complete store physical inventories	1.96% *(34)*	1.44% *(10)*	2.41% *(13)*	1.51% *(6)*	2.34% *(5)*
Cycle counts are not performed	2.19% *(43)*	2.15% *(14)*	2.51% *(12)*	2.17% *(6)*	1.91% *(11)*
At Cost					
Cycle counts are performed rather than complete store physical inventories	1.38% *(1)*	-	1.38% *(1)*	-	-
Cycle counts are performed in addition to complete store physical inventories	1.05% *(18)*	0.81% *(9)*	0.79% *(5)*	1.68% *(1)*	1.99% *(3)*
Cycle counts are not performed	2.29% *(16)*	2.65% *(9)*	1.43% *(3)*	1.25% *(2)*	3.00% *(2)*

( ) = Number of responses to this question

Chain Store Age
EXECUTIVE
January 1992/Section Three

ARTHUR
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SECOND ANNUAL SURVEY OF RETAIL CREDIT TRENDS

600—
500—
400—
300—
200—
100—

METHODOLOGY

This is not a pretty time for retailers. Real growth in retail sales is widely predicted to average about 1.5% annually in the early 1990s compared to 3% in the 1980s. Consequently, retailers are digging deep into their bag of tricks to do everything they can to spur reluctant, value-hungry, sales-conscious consumers to spend in an almost stagnant economy.

And, as retailers take advantage of the sophisticated demographic information gleaned from credit card operations, credit cards are proving a powerful targeted marketing tool in the effort to increase sales. While credit sales account for about a fifth of total retail sales at present, the trend has been steadily upward.

Today, over a billion credit cards circulate in the United States. Credit card spending approached $500 billion in 1991.

Operating in what has been termed the worst retail economy in decades, retailers are convinced that consumer credit will expand, that credit sales will continue to increase as a percentage of total sales, and that credit will play an increasingly important role.

Credit providers and processors continue to expand credit availability, which retailers hope will fuel an increase in consumer spending throughout 1992.

Credit will continue to be an integral part of a successful retailing strategy in the 1990s. Credit managers will need to work with retail marketers and merchants to be successful in the near "zero sum game" of retailing today.

Consumer information, including customer profiles and buying patterns, will fuel the micro-marketing strategies of the future. Credit costs are escalating, personal bankruptcies are skyrocketing, and retailers see no convenient way to reduce either as credit sales become a larger and larger slice of the total retail pie.

Services offered to retailers by credit providers and processors, including third-party cards (MasterCard, Visa, etc.) and private-label providers, will continue to be enhanced.

These and other findings are detailed within this supplement, which presents the results of the second Survey of Retail Credit Trends conducted by Arthur Andersen, a worldwide professional services firm. The co-conductor of this survey is *Chain Store Age Executive*, which collaborated with Arthur Andersen in the design and distribution of the survey.

Methodology: In July 1991, a jointly produced questionnaire was mailed to 2,000 retailers across the country after being field-tested with several retailers.

We received responses from 170 companies, up from 159 in 1990, an indication that retailers continue to have a substantial interest in this topic. The size of the response rate, 9%, has made it possible to draw comparisons by size of category and class of trade—and also size of company within each class of trade.

Approximately 85% of the retailers who responded to this year's survey participated last year. This year's survey collected some data for both years, allowing year-to-year comparisons for much of the information.

The median of the responses is reported as the average of the statistical data unless otherwise indicated. Some questions called for multiple answers, so total responses don't always equal 100%. Some participants didn't choose to answer all the questions. Only data with response rates sufficient to be meaningful have been published.

SURVEY DEMOGRAPHICS

	PERCENT PARTICIPANTS BY 1991 SALES VOLUME IN $ MILLIONS				
	All Participants	$0-$50	$50-$200	$200-$999	$1000 or more
Convenience stores	7.88	30.77	46.15	7.69	15.38
Department stores	12.12	20.00	15.00	35.00	30.00
Discount stores	7.88	53.85	15.38	30.77	0.00
Mass merchants	4.85	37.50	25.00	25.00	12.50
Home centers	8.48	35.71	21.43	35.71	7.14
Specialty/apparel	21.21	57.14	17.14	17.14	8.57
Specialty/non-apparel	28.48	44.68	25.53	25.53	4.26
Supermarkets	9.09	20.00	26.67	33.33	20.00
Total participants	100.00	40.61	23.03	25.45	10.91

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OVERALL FINDINGS

The inaugural year of the 90s witnessed a traumatized retail economy and several major financial casualties in an industry which was attempting to move from the "go-go" years of the 80s to the realities of the new decade.

Increases in comparable store sales were marginal, even for the strong performers, and many retailers had negative comparable store sales results. A weak national economy combined with the Persian Gulf crisis to jolt consumers.

Indices of consumer confidence experienced a free fall between July 1990 and January 1991, leveling out at below 1982 recession levels. The speed of this descent appeared to surprise retailers and economists alike.

As 1991 began, optimism receded—watching CNN's Bernard Shaw reporting live from Baghdad seemed to take priority over browsing and shopping in the nation's malls. Sales throughout the first three quarters of 1991 continued to disappoint many in management.

In response to this cloudy economic environment, veteran retailers continue to reinvent their businesses. "Customer focus," "customer service" and "thinking like the customer" are again mainstays of the retail vocabulary. Retailers realize that their industry has become a slower—if not "no-growth"—segment of a sluggish national economy. In many markets, retailers are playing a "zero sum game," where each winner creates a loser.

Competitive advantage works in both growth and no-growth economies, and the retailers responding to the second annual Survey of Retail Credit Trends seek some of their advantage through the credit function.

Retail credit continues to be a significant weapon in their arsenal to steal competitor's customers. The successful retailers of the 90s will, among other things, ensure that the credit function actively serves their marketers and merchants by translating myriad customer data into actionable customer profile information.

The credit function will help build customer loyalty with frequent-shopper programs, bonuses and appreciation programs. Technology for accumulating and sorting data will help merchants react faster to important trends. In short, retail credit will continue to play a critical role, if not the principal role, in driving the winners toward success.

Sales trends: In spite of gloomy economic news and, in many cases, disappointing year-to-date results, retailers we surveyed again predict that retail sales, both in total and on a comparable store basis, will have increased in 1991.

In last year's survey, a surprising 60% predicted an increase in comparable store sales, while only 13% predicted a decline. In 1991, our respondents are again optimistic.

Sixty-four percent project an increase in comparable store sales, 23% expect them to remain flat and 13% expect a decline. In discussing these results with several respondents, it was clear that many retailers believe it won't be difficult to surpass the prior year's comparable store sales.

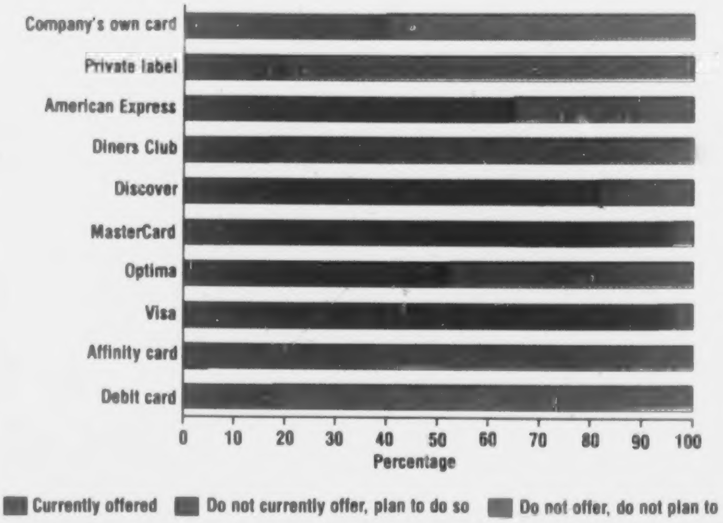
Retailers again report that credit sales are growing at a healthy pace, and they predict that credit sales as a percentage of total sales will continue to increase. Fifty-four percent expect an increase, 43% project no change and only 3% anticipate a decline.

On average, credit sales now represent 35% of total sales for companies operating their own credit function in house, a one percentage point increase over the prior year's results. For those respondents using private-label services, credit sales represent 15% of total sales, a four percentage point increase over the prior year.

However, MasterCard, Visa, American Express and other third-party credit providers achieved the highest gains. Third-party credit sales are 25% of total sales so far in 1991, increasing 2.5 percentage points over 1990 figures for the same respondents.

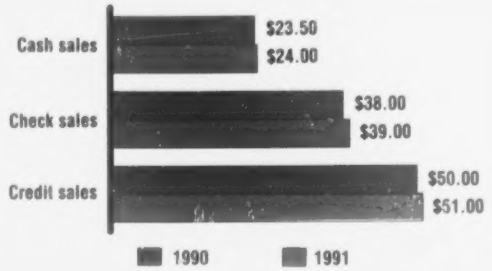
Forty-five percent of the respondents also report that the number of third-party credit cards accepted has increased over the last two years, while only 3% report that the number has decreased. This trend reflects the aggressive marketing efforts mustered by the third-party card providers as well as gains made by Discover Card in the last 24 months.

TYPE OF CREDIT OFFERED



OVERALL FINDINGS

AVERAGE SALES TRANSACTION AMOUNTS



AVERAGE SALES TRANSACTIONS*								
	PARTICIPANTS BY 1991 SALES VOLUME IN $ MILLIONS							
	$0-$50		$50-$200		$200-$999		$1,000 OR MORE	
	1991	1990	1991	1990	1991	1990	1991	1990
Cash	32.00	30.00	15.50	13.00	19.00	20.00	22.50	20.50
Check	50.00	49.00	27.00	25.00	39.00	36.50	39.00	36.00
Credit	60.00	52.50	40.00	38.00	53.00	52.00	50.00	48.00

*Dollars

Approximately 70% of this year's respondents now accept Discover, and another 10% expect to do so within the next 18 months. Approximately 64% of this year's respondents accept American Express. Virtually all the respondents accept MasterCard and Visa, with 6% utilizing an affinity card, which is co-branded with the company's name and logo.

During 1991, average transaction for cash sales increased 2.1%, while average credit transaction increased by 2%. The average credit transaction for this year's respondents increased from $50 to $51 and this year again represents approximately twice the average cash transaction.

In 1991, respondents report a slight increase in average check sales—from $38 to $39 per transaction. Private-label credit transactions increased dramatically from $47 to $55, the largest increase reported by survey participants.

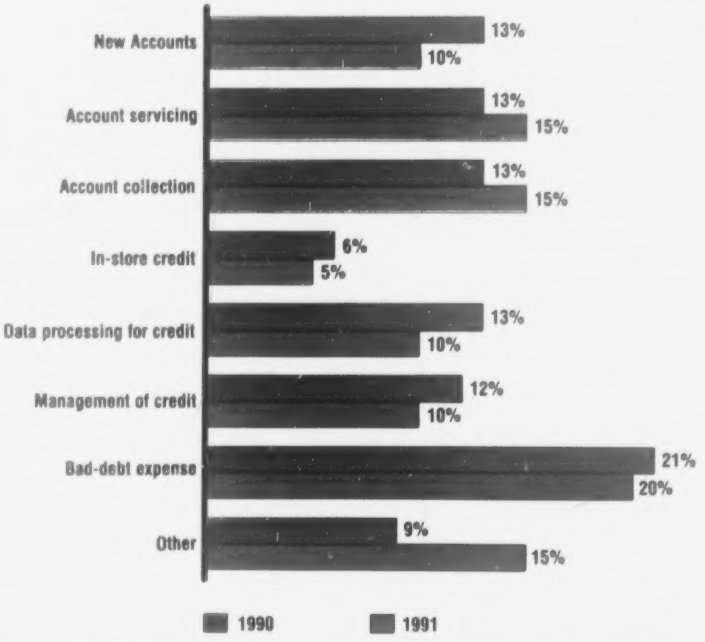
Of the third-party providers, American Express, as expected, reports the highest average transaction amount at $55 for both 1991 and 1990. MasterCard and Visa are a close second at $48 for both years, and average Discover transactions are reported at $42, a 5% increase over the prior year's experience for the same respondents. Discover appears to be making inroads both with retailers and consumers.

About one-third of the respondents have attempted to quantify the incremental sales generated from their credit card operations. These respondents report that credit cards produce incremental

PERCENTAGE OF TOTAL TRANSACTIONS*										
	PARTICIPANTS BY 1991 SALES VOLUME									
	All respondents		$0-$50 million		$50-$200 million		$200-$999 million		over $1 billion	
	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990
Cash	33.0	30.8	27.0	27.0	35.0	40.0	43.0	41.0	51.0	42.0
Check	27.5	30.0	30.0	30.0	29.0	29.0	25.0	25.0	26.0	27.0
Credit	35.0	34.6	40.0	40.0	20.0	20.0	30.0	30.0	33.0	38.0

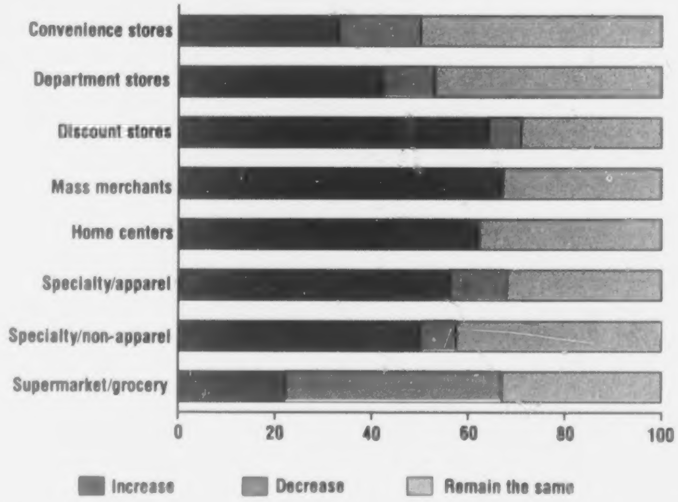
*Results represent the median, therefore total responses may not equal 100%

COST OF CREDIT ACTIVITIES AS A PERCENTAGE OF TOTAL CREDIT COSTS



OVERALL FINDINGS

DISCOUNT RATES FORECAST FOR THE NEXT 18 MONTHS



sales of anywhere from 5% to 20%, the majority report a 20% incremental sales experience. Retailers are convinced that if they stopped accepting credit cards, sales would plummet within six months.

Based on the results of this year's survey, it seems that the respondents either don't believe—or don't care to listen to—those who argue that the consumer intends to, and should, de-leverage his personal balance sheet at the expense of consumption.

They are not completely alone in this view. The April 1991 Bernstein Research report, produced by Sanford C. Bernstein & Co. Inc., contains a contrary view. It suggests that "the consumer still has an ample margin of safety even after the debt accumulation of the 1980s . . . and has financial characteristics superior to any other group of borrowers."

DISCOUNT RATES CHARGED BY 3RD PARTY PROVIDERS*

	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty/ apparel	Specialty/ non-apparel	Supermarkets
American Express	3.00	3.13	3.00	3.00	3.00	3.50	3.45	3.20
Diners Club	0.00	3.75	3.55	0.00	0.00	3.13	3.00	00.0
Discover	3.00	1.67	1.60	1.40	1.50	1.75	1.80	1.85
MasterCard	3.00	1.67	1.60	1.71	1.61	1.76	1.87	2.00
Optima	3.00	3.13	2.00	0.00	1.90	3.13	3.00	1.30
Private-Label	0.00	1.38	0.00	1.50	2.00	2.00	1.00	00.0
Visa	3.00	1.67	1.60	1.71	1.59	1.77	1.86	2.00

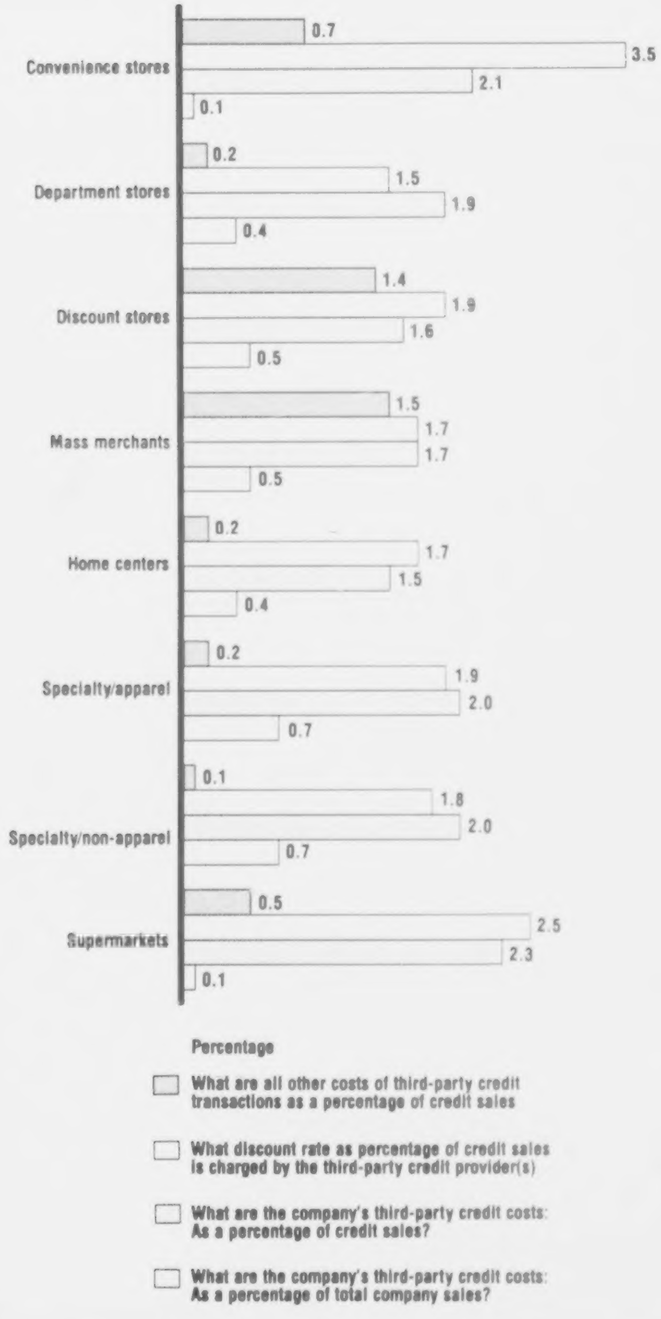
*Median percent

MARKETING TECHNIQUES USED WITH COMPANY-OWNED CREDIT CARDS

	PERCENT PARTICIPANTS BY 1991 SALES VOLUME IN $ MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans
Billing stuffers	66.67	11.11	22.22	62.50	0.00	37.50	90.91	0.00	9.09	77.78	11.11	11.11
Promotional mailings	72.22	11.11	16.67	50.00	25.00	25.00	100.00	0.00	0.00	88.89	0.00	11.11
Discounts/coupons	47.06	5.88	47.06	68.75	0.00	31.25	63.64	9.09	27.27	66.67	22.22	11.11
Frequent shopper programs	12.50	18.75	68.75	12.50	25.00	62.50	9.09	63.64	27.27	37.50	37.50	25.00
Future promotions information	37.50	12.50	50.00	12.50	12.50	75.00	81.82	18.18	0.00	66.67	0.00	33.33
Seasonal ad books	23.53	23.53	52.94	37.50	0.00	62.50	72.73	9.09	18.18	62.50	0.00	37.50
Merchandise for credit customers only	18.75	6.25	75.00	0.00	0.00	100.00	30.00	20.00	50.00	12.50	12.50	75.00
More lenient credit for specific seasons	23.53	5.88	70.59	18.75	0.00	81.25	45.45	18.18	36.36	66.67	0.00	33.33

OVERALL FINDINGS

THIRD PARTY CREDIT COSTS



The Bernstein report also maintains that although "the quality of the consumer sector's balance sheet has eroded continuously throughout the postwar period, the consumer is still the strongest borrower." Thus, retailers' optimism about consumer credit expansion has some foundation; their hopes clearly rest on a consumer-driven recovery.

Cost of credit: Retailers continue to face increasing costs in their credit functions. Rapidly escalating personal bankruptcy rates and bankruptcy write-offs are the new phenomenon of the 1990s.

Retailers who offer their own credit also report a substantial increase in the total number of credit card accounts, with an average increase of 10% reported. Presumably, this reflects the aggressive credit promotion campaigns launched by these respondents.

Bankruptcy write-offs reported by respondents offering their own credit increased a whopping 30% between 1990 and 1991. According to the American Bankruptcy Institute (ABI), over 800,000 personal bankruptcy cases were filed in the 12-month period ending June 30, 1991, a 21% increase from the prior year.

The *Chicago Tribune* quoted Samuel Gerdano, executive director of the ABI, who contends that "the bankruptcy boom is here to stay unless Americans reduce their debt load."

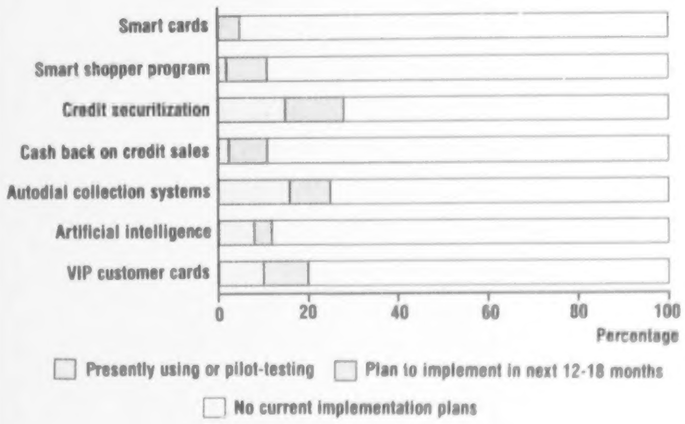
All other write-offs increased 4%, while recoveries declined by the same percentage. Obviously, the bankruptcy rates reflect the weak national economy as well as the impact of the change in the Federal Bankruptcy Law in 1979, which provided greater consumer protection and made bankruptcy protection easier to attain.

Overall, retailers with their own credit operations report total credit costs approximating 1.35% of total sales and 2.85% of credit sales. In our 1990 study, these costs were 1% of sales and 2.25% of credit sales. There were more respondents to this year's survey, but we believe the rising cost trend is accurate.

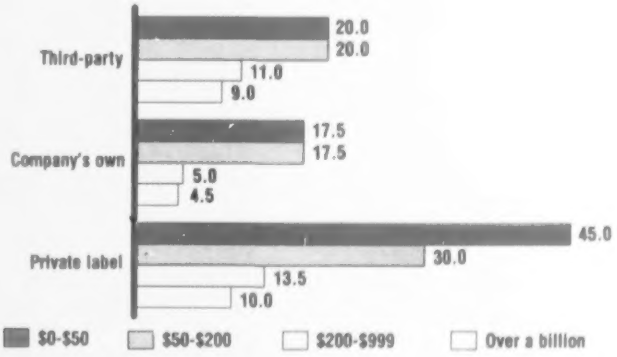
The components of credit costs

OVERALL FINDINGS

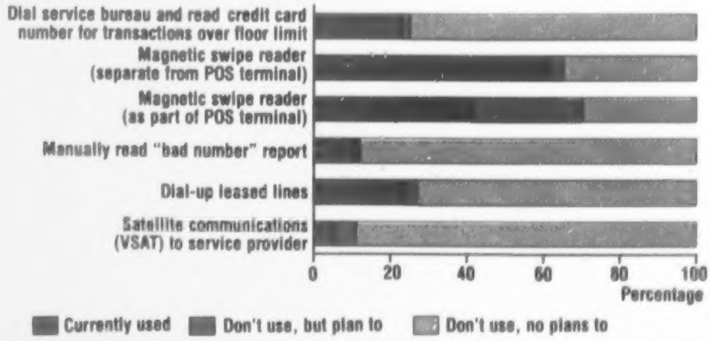
EMERGING RETAIL ISSUES



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME IN SECONDS BY COMPANY REVENUE



CREDIT AUTHORIZATION TECHNIQUES USED



also parallel the results of our 1990 survey. For example, bad-debt expense is again nearly twice any other component of credit costs.

Using a private-label credit operation is reported to cost less than running an in-house operation. Respondents report costs approximate 1% of sales on average, and 1.8% of credit sales, which parallels last year's results of 0.8% and 1.9%, respectively.

With the squeeze on the investment dollar, it will be increasingly difficult for retailers to maintain state-of-the-art credit systems. In response, 5% of this year's survey respondents report that they intend to pursue private-label credit within the next 18 months. We believe the trend toward private-label processing will accelerate.

Third-party credit costs are reported to be 0.5% of sales and 1.95% of credit sales for all respondents in 1991. This is a slight decrease from last year's response of 0.6% and 2%, respectively.

The average discount rate reported by respondents this year is 1.83%. Last year, respondents reported an average discount rate of 1.9%. It appears that the well-chronicled "market-share" wars between the major cards and the processors might represent an advantage to the retailer.

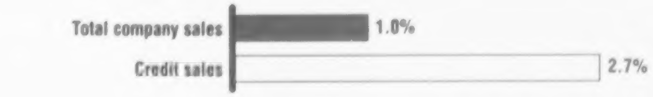
Even though the interchange rate increased last year, it appears retailers have been able to contain the overall cost of this form of credit by negotiating and working with the credit providers.

Once again, MasterCard and Visa are reported to offer the lowest discount rates, which averaged 1.78% for all respondents. As expected, American Express has the highest discount rates, an average of 3.25%. Fifty-six percent of the respondents report that their discount rates increased over 1990; for 22%, the rates have decreased.

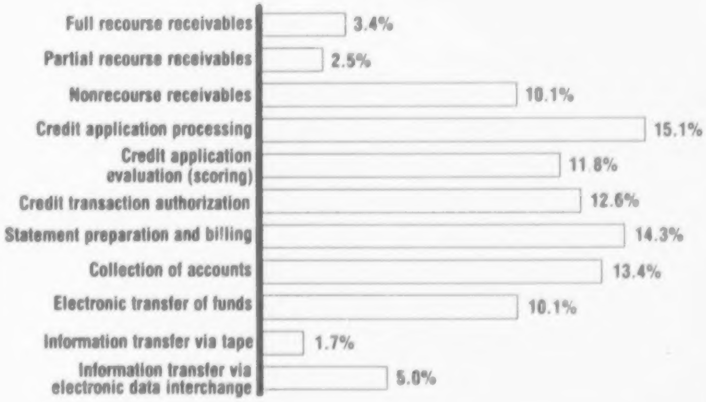
Approximately half of the respondents expect their discount rates to increase in the next 18 months, and less than 12% expect a decline. Once again, a substantial majority group (66%) indicates that they do not intend to pass any increase in cost to the customer in the form of price increases.

OVERALL FINDINGS

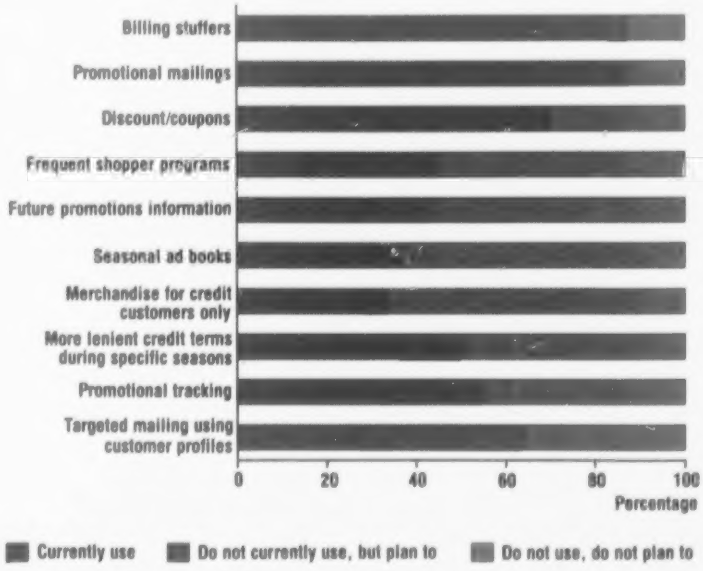
WHAT IS THE COST OF THE COMPANY'S PRIVATE LABEL CREDIT OPERATIONS? AS A PERCENTAGE OF:



SERVICES OR CHARACTERISTICS INCLUDED IN PRIVATE-LABEL PROGRAM



DOES THE COMPANY USE ANY OF THE FOLLOWING IN THEIR PRIVATE LABEL PROGRAM



Surprisingly, over two-thirds of the respondents are interested in learning more about the components of interchange rates. This appears to present an opportunity for MasterCard, Visa and American Express to educate their clients.

Chargebacks and fraud are growing at a startling rate. Of this year's respondents, 32% report that chargebacks have increased either moderately or substantially, while 50% report the level of chargebacks to be the same.

The retailers we talked with are frustrated with the apparent increase and the effort required in handling chargebacks related to fraud. However, fraudulent credit card use will inevitably continue to rise as the number of bankcards circulating in the United States presently is reported to exceed 217 million, an 8% increase since 1990. Industry forecasts suggest that credit card issuance will increase, albeit at a slower rate.

Marketing: The retail credit function is assuming more and more responsibility for protecting and expanding a company's customer base.

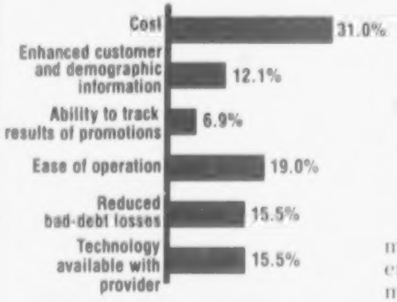
Retailers see the credit function as a vital part of their marketing strategy. One retailer in particular, who reports that credit sales are a whopping 80% of total sales, has totally integrated the marketing and credit functions. Credit promotions and merchandise promotions are communicated entirely by using the company's credit information, which drives this successful retailer.

This year's survey indicates that most companies are seeking new and better ways to communicate with their customers. Several respondents also report that they now use credit data to help measure consumer confidence and project sales levels. As affordable systems are developed to extract data, correlate trends and profile customer patterns, micro-marketing through the credit function will become commonplace.

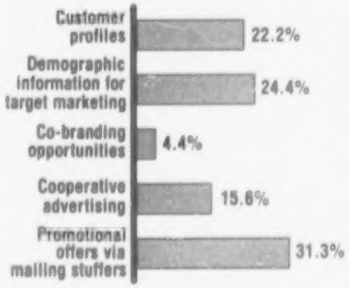
Surprisingly, less than half of the retailers with in-house credit operations report that their companies do not establish goals to in-

OVERALL FINDINGS

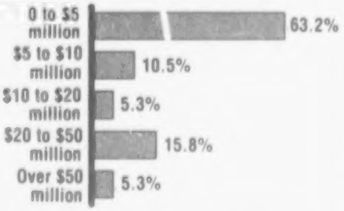
FACTORS INFLUENCING SELECTION OF PRIVATE LABEL PROGRAM



ANCILLARY MARKETING SERVICES PROVIDED BY PRIVATE LABEL SERVICE PROVIDER



AVERAGE TOTAL OF OUTSTANDING RECEIVABLES BALANCE FOR COMPANY'S PRIVATE LABEL PROGRAM



crease the number of active accounts. Setting expectations and inspecting results in the credit promotion area will help those who aren't presently goal-oriented to enhance their credit operations. In addition, less than half of the respondents offer credit incentives such as first-day discounts.

Interestingly, few retailers, including those offering private-label credit, sell their mailing lists, preferring instead to preserve these assets for their own use. Only 14% of the respondents, many of whom have catalog operations, sell their mailing lists.

About one-third of this year's respondents attempt to influence the consumer's choice of payment at the point of sale. Over half of these respondents report success.

Sixty percent of these retailers promote their own card, 30% promote cash or checks, and the remainder try to influence customers to use third-party cards with a more favorable discount rate at the register. While training front-end personnel has always been a challenge, it appears retailers still have an opportunity to increase productivity at the point of sale.

Most retailers do not require a minimum charge amount; only 14% do. "Cash is not king" in retailing since only 3% of the respondents reported offering a discount to cash customers (although 19% did provide "cash only" registers to enhance customer service).

Half of the retailers reported that they offer third-party credit applications in their stores, but only 15% actively promote third-party credit applications. Twenty-two percent of the respondents report that the third-party discount rate does impact their point-of-sale signage preference.

In 1990, respondents marked "customer service" as the primary reason for offering credit. In 1991, "generating incremental sales" leads the field of reasons for being in the credit business. Customer service ranks a close second.

Surprisingly, retailers say "targeted marketing" is the least important reason for accepting plastic. "Attracting better customers" and "reducing cash handling and shrinkage" are given equal value, well below customer service.

Once again, billing stuffers and promotional mailings are retailers' most popular means of enhancing their own credit card sales. Approximately 70% of the 1991 respondents use these techniques.

Similar to last year's results, over 31% of the retailers plan to institute frequent-shopper programs within the next 18 months. If these plans are carried out, half of the respondents will have frequent-shopper programs in two years.

Over 40% of retailers use the credit function and seasonal advertising books to announce future promotions. Another 10% expect to implement these campaigns in the next 18 months. About 18% offer more lenient credit terms during specific seasons, an increase from last year's response of approximately 12%.

Private-label retailers are more likely to use conventional marketing and are less interested in frequent-shopper programs than other respondents.

More than 85% of these respondents use billing stuffers and promotional mailings; over 70% offer discounts and coupons; and in excess of 30% utilize future promotion information, seasonal ad books and merchandise for credit customers only.

Almost 40% offer more lenient credit terms and utilize promotional tracking. Private-label retailers are somewhat more interested in using customer profiles for targeted mailings than in utilizing frequent-shopper programs.

More than one-third of these respondents state that they intend to implement targeted mailings over the next 18 months, while 30% intend to start frequent-shopper programs.

It also appears that retailers using private-label cards generally use or plan to use a greater variety of marketing techniques than the average retailer offering their own credit operation.

Most retailers are very pleased with third-party card providers' services. Notably, retailers rank demographic information for targeted marketing as the preferred service offered by third-party processors, with a slight edge over cooperative advertising. Customer profiles are also in demand; promotional offers using mailing stuffers are less important to retailers.

MasterCard and Visa receive the most positive ratings in terms

OVERALL FINDINGS

of speed of payment and credit authorization, with more than two-thirds of the respondents reporting that they are satisfied with these services. Approximately 50% rate American Express and Optima as satisfactory in these areas. Retailers are still less satisfied with chargeback processing than with the other services of third-party card providers.

Two-thirds of the respondents agree that the prominent display of third-party logos and names in key locations positively influences sales. The cash register is the display location of choice, with storefront windows and doors coming in a distant second.

The 170 respondents to this year's survey continue to demonstrate a keen interest in marketing to their customers through the credit function. The level of response to marketing questions exceeds all other areas, and many retailers indicate that they intend to accelerate their efforts to expand customer credit in the quest for incremental sales.

Credit Technology: Technology continues its inexorable invasion of the credit function. Forty-three percent of the survey participants report that their credit authorization information is stored centrally in an electronic format, and another 20% intend to implement this over the next 18 months.

Over 80% of the respondents perform credit authorization at the point of sale. Of those who do not, the majority plan to begin POS authorization in the next 18 months. Forty-two percent use magnetic swipe readers at POS terminals.

Over 60% use automated credit authorization techniques at the register, an increase from the 50% reported in last year's survey. Scanning is now performed by more than a third of the respondents; another 20% intend to scan within the next 18 months.

A small group of respondents (8%), mostly supermarkets, accepts debit cards, and an additional 8% plan to in the next 18 months. Similarly, ATMs are most often used by supermarkets. Other retail segments should be keenly interested in the success of the debit card in the supermarket segment, since supermarkets have initiated many of the technologies eventually adopted throughout the retailing industry.

Approximately one quarter of the participants still dial service bureaus, and 8% still read "bad number" reports. Very few respondents utilize satellite communications, although 5% intend to do so in the future.

Customer service drives technology decisions at the register again this year. Retailers rank customer service as the number one reason for implementing credit authorization technology.

Reducing bankcard processing costs is ranked second and cost reduction third. Retailers generally do not regard the elimination of bad credit as a primary reason for implementing automated credit processing technology, nor do they hold POS register productivity or improving cash float to be as important as customer service.

Average credit processing times are highest for private-label cards (30 seconds) and lowest for companies with their own cards (9.5 seconds). At 20 seconds, third-party cards fall in the middle range. Processing time at the register appears to be generally acceptable to retailers and customers.

Retailers most frequently ask for a second credit card when credit authorization is denied at the register. One half of the respondents accept a check with identification, and nearly 40% report that they accept cash only. More than half report making a second attempt to obtain authorization before seeking alternatives.

Private-Label Services: This year's survey directed some additional questions to retailers using private-label credit services. As mentioned earlier, we believe that the use of private-label services will increase as technologies that require a sizable investment will direct retailers to alternative courses of action.

According to this year's survey, retailers who opted for a private-label program did so mainly to lower costs (including bad-debt expense) and to reduce the complexity of their operations.

The ability of the private-label program to provide state-of-the-art technologies is also highly ranked. Enhanced customer and demographic information as well as the ability to track the results of promotions do not appear to influence many respondents.

On the other hand, for those now using private-label credit programs, customer profiles and demographic information for targeted marketing are the services most sought from their providers.

Retailers operating private-label credit programs are more likely to establish goals to increase credit card accounts. Sixty-two percent of these respondents set targets, and another 9% expect to in the near future.

Eighty-five percent of these retailers also accept third-party cards; nearly half report that they train their employees to influence customers towards the private-label card.

More than half of the private-label providers offer customer profiles, demographic information for targeted marketing and promotional opportunities.

Thirty percent of the respondents indicate that their private-label providers offer cooperative advertising. Over 14 different private-label processors are used, with General Electric Credit Corporation being mentioned most often.

All of the retailers choosing private-label cards report utilizing credit application processing, statement preparation and billing functions provided by their servicers. The majority also utilize collection, transaction authorization and credit application scoring.

Two thirds of these respondents assume no risk of bad debts as they have "nonrecourse receivables," while half of the remaining respondents have partial recourse receivables and the other half assume full risk and recourse.

For those retailers assuming bad-debt risk, bankruptcy write-offs have skyrocketed, all other write-offs have declined and recoveries have decreased between 1990 and 1991.

DEPARTMENT STORES

Department store retailers have set the pace historically in retail credit trends. They were also the first to feel the impact of the economic recession. They are significant contributors to the survey results. The department store retailers responding to the Arthur Andersen/*Chain Store Age Executive* survey are evenly distributed among small, medium and large department stores. Department store retailers with operations throughout the United States are represented in the responses, with the Northeast, Southeast and Midwest showing the strongest participation. Generally, the surveys were completed under the supervision of a senior officer of the responding company.

About one fifth of the participating companies have sales of less than $50 million, 15% report sales of $50 million to $200 million and the remainder (65%) report sales in excess of $200 million.

Virtually all of the responding department stores offer their own credit cards, and more than 95% of these retailers accept third-party credit cards as well.

MasterCard, Visa and American Express are accepted at all of those retailers who accept third-party credit. Discover is advancing and is accepted at over 50% of these retailers, an increase over the prior year.

Sales Trends: Department stores are far more positive than the total population of survey participants in projecting future sale gains. These retailers obviously believe that the bad news is behind us. Approximately 78% of department store participants project comparable store sales increases for the year; none of these respondents expects a decrease.

Only 5% predict that credit sales as a percentage of total sales will decline. Nearly 45% of these respondents expect credit sales as a percentage of total store sales to rise, and 50% expect the percentage to stay constant. These retailers have been hurt by the economy, and their optimism may be a reflection of the hope that things can't get any worse.

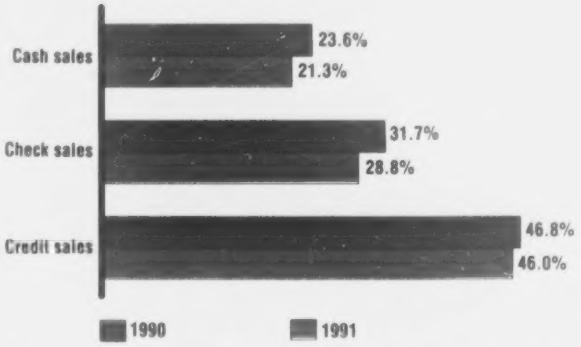
Average cash transaction values at these department stores decreased by 2% to $20 between 1990 and 1991, and average credit transaction values decreased by 4%, to an average of $45. Average personal check transaction values increased 7% in 1991, to an average of $36.50. As a percentage of total transactions, credit transactions represent 46%, check transactions 29% and cash transactions 21%. Check transactions decreased 3% and cash transactions fell 2%, while credit transactions decreased 1%.

Credit is significantly more important to department store retailers than to other retailers. On average, department store respondents report that their own credit card sales account for almost half (46%) of total sales, a slight increase from the prior year for these respondents. Three quarters of the participating department store retailers report credit sales of between 40% and 54% of total sales.

Department store participants also report that third-party credit card sales increased from 1990 to 1991, indicating that consumers are charging in lieu of paying cash or writing checks.

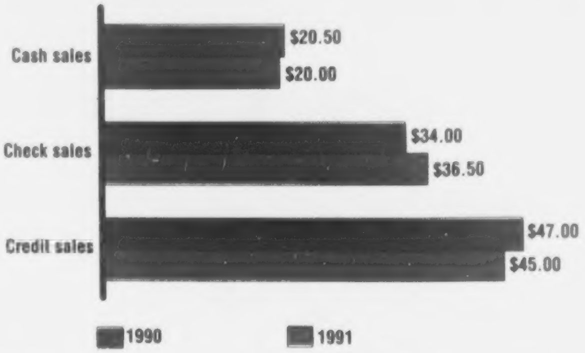
More than two-thirds of the department store respondents report that they take the time to estimate the incremental sales resulting from their credit card operations. More than 40% report their credit

PERCENTAGE OF TOTAL TRANSACTIONS



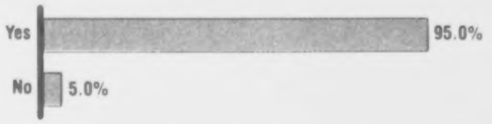
*Results represent the median of the responses, therefore total responses may not equal 100%

AVERAGE SALES TRANSACTION AMOUNTS

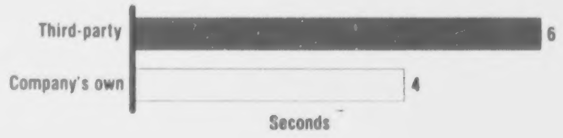


DEPARTMENT STORES

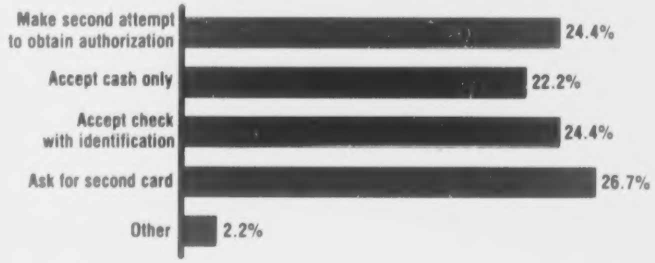
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



to result in 20% incremental sales, while all report that credit results in at least 6% or higher sales. These retailers are convinced that their sales would drop between 15% and 20% over six months if they terminated their own credit operations.

As is the case with most of our survey participants, the department store executives seem more optimistic about the impact of the economic recovery than many economists and business reporters. These executives believe that consumers will loosen controls on spending during the remainder of 1991.

Cost of Credit: Department stores offering their own credit cards report that the cost of their credit operations was approximately 2.6% of total sales and 5.1% of credit sales in 1991. Department stores are finding it expensive to process credit card transactions, reflecting their heavier reliance on in-house processing. In fact, these respondents indicate that data processing of credit transactions runs around 16% of total credit costs—as opposed to 10% for all survey respondents.

Bad-debt expense is reported to average 40% of total credit cost. Bankruptcy write-offs for these retailers have increased almost 50% on average, reflecting the bankruptcy boom in the United States. Other write-offs on their own credit cards also are reported to have increased sharply, and recoveries are down 5% on average.

But department stores do better than others in new accounts, account servicing, account collection, credit management, in-store credit and other expenses. As a percentage of total credit costs, each of these costs is 1% less than for other respondents.

Department stores report that third-party credit costs approximate 1.9% of credit sales and less than 0.5% percent of total sales. The average discount rate reported is 1.5%, and all other third-party costs are 0.4% of credit sales. Approximately 60% of these respondents report an increase in their discount rate, while 18% report a decline.

The majority of department store respondents (69%) have experienced an increase in credit card chargebacks from their third-party cards during the last 24 months, but 60% of these same retailers report that they are comfortable with their own internal procedures for monitoring chargebacks.

Three quarters of the department store retailers are experiencing third-party credit card fraud, and approximately 60% of them indicate that the processors are "ineffective" in dealing with fraudulent chargebacks.

Close to half of the department stores responding to the survey expect the discount rates for third-party credit cards to increase. However, only 10% of these respondents expect to pass discount rate increases on to their customers in the form of higher prices.

Marketing: Department store retailers are savvy marketers. They use a broader array of marketing techniques, principally because they generally have their own credit card operations and they have a history of communicating with their customers more frequently and directly than some other retailers do.

Nearly all of the department store respondents use billing stuffers, promotional mailings and coupons. More than one-half of these department stores promote special programs and utilize seasonal advertising books. Over 85% of department store participants establish goals to increase the number of credit card accounts, and 70% train their employees to influence customers toward their own

DEPARTMENT STORES

DOES THE COMPANY OFFER . . .	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	5.26	94.74
In-store third-party credit applications	84.21	15.79
Instant credit upon receipt of application	82.35	17.65
Incentives to new credit applicants	88.24	11.76

THIRD-PARTY CREDIT PROCESSING METHODS	Currently Using	Don't use, no plans to
Bank	70.59%	29.41%
Third-party processors	35.71	64.29
Service bureau	7.14	92.86

credit card at the point of sale.

Over 60% of the department store officials surveyed offer more lenient credit terms during holiday seasons, and another 7% indicate that they plan to do so in the future.

While 35% of the department store participants offer frequent-shopper programs now, another 15% (the highest rate of all retailers surveyed) plan to start frequent-shopper programs in the future.

Not unexpectedly, cooperative advertising is the most preferred service retailers receive from their third-party credit providers. However, customer profiles and demographic information for targeted mailings are also highly ranked and are becoming more important to department stores based on a comparison with last year's results.

Department store retailers are generally satisfied with the level of service provided by third-party processors. While they are not generous with their praise, they cite American Express for its marketing services, including the in-store signage it offers, and MasterCard and Visa for their speed of payment and credit authorization efficiencies. None of the processors receive rave reviews for their chargeback processing.

Credit Technology: Approximately 95% of department store retailers report that they presently authorize credit at the point of sale, the majority utilizing magnetic swipe readers on the POS terminal. Over 90% of the participating department store retailers cite improved customer service as the leading reason for implementing POS credit authorization. Reducing costs is the second most frequent reason reported; improving cash float, reducing clerical errors, increasing register productivity and eliminating bad credit situations are mentioned in order of their importance.

Department store retailers report significantly faster average credit authorization processing time than non-department store retailers, reflecting their sustained investment in technology over the years. These department store retailers report an average credit authorization processing time of six seconds for third-party credit transactions, and three quarters of the respondents report a range of five to 17 seconds.

And credit authorization processing for their own credit cards is even faster. Respondents report an average credit authorization processing time of four seconds; 75% of the respondents report times between two and five seconds.

Emerging Trends: Department store respondents show very little interest in debit cards, smart cards, additional automatic teller machines, self-checkout and artificial intelligence. On the other hand, they do continue to report a keen interest in scanning, automated authorization, EDI in the credit function and autodial collection systems.

More department stores use automated authorization than any other retail segment. In fact, about 80% of the participating department stores report they do so. In addition, approximately 42% of the department stores in 1991 are using autodial collection systems, an increase from the 18% of last year's survey.

Approximately 25% of the respondents now utilize EDI in the credit function, but no other department store retailers indicate that they intend to invest in EDI in the near future. One quarter of the participants indicate that they use VIP customer cards, and no respondents have plans to implement VIP customer card programs.

While only 12% of the department store respondents presently employ credit securitization financing, an additional 12% indicate that they plan to pursue credit securitization over the next 12 to 18 months.

Over 60% of the department stores use economic credit trends to predict sales. However, only 25% monitor consumer spending trends and customer shopping profiles through the credit function. And, none of the respondents report using the credit function to monitor consumer confidence.

Half of the department store respondents would like to see state-to-state standardization of the maximum allowable interest rate. Over 70% report that they are now subject to state legislation limiting personal identification procedures for credit cards and checks.

Department store retailers are clearly the most dependent on credit cards of any group surveyed, and they appear to maximize their credit efforts. When asked why they accept credit, the response was "to generate incremental sales." Credit is perceived as a customer service enhancement and a vital element in the success of department store operations.

SPECIALTY/APPAREL

Specialty apparel retailers are the second largest category of respondents to the Arthur Andersen/*Chain Store Age Executive* survey. More than half (57%) of these apparel retailers report revenues of less than $50 million, 17% report revenues between $50 million and $200 million and 26% of the participating companies report revenues in excess of $200 million. The majority of these specialty companies are privately held.

Over half of these retailers are headquartered in the Northeast; the remainder of the respondents are evenly distributed throughout the country. About a quarter of the responding specialty apparel retailers report that they offer their own credit cards, and all of these merchants offer third-party card services.

Sales Trends: The specialty retailers in the apparel segment are normally good barometers of the economic climate. They are keen observers of the foot traffic in what has been described as an "overmalled America," and several of these respondents operate throughout the country. They have been hit hard by the recession and are hopefully correct in their prediction of the return to better times. Specialty retailers are more optimistic than retailers as a whole in projecting future sales. Approximately 69% expect comparable store sales to increase, while 12% forecast decreasing comparable store sales and 19% expect their sales to remain the same.

A good portion of the respondents, 63%, expect credit sales to become a larger percentage of total sales, while 31% of these apparel retailers expect credit sales to remain the same and 16% expect a decline. Forty-one percent report that they have measured the impact on incremental sales of accepting credit, and nearly half of these estimate incremental sales exceeding 20%. All of the respondents suggest that sales would plummet within six months to a year if they stopped accepting credit cards.

The average cash transaction increased 1% to $45 in 1991, and credit transactions increased 9% to an average of $60 in 1991. Average personal-check transactions among the respondents decreased 9% over a 24-month period to $50.

Normally, specialty apparel retailers report a higher average credit sale transaction ($50) than other segments. While department store retailers report an average decrease, these specialty retailers experience a slight increase year to year.

Specialty stores reported a slight increase (to $45) in their average cash transaction this year, while department stores average of $20 was down from last year.

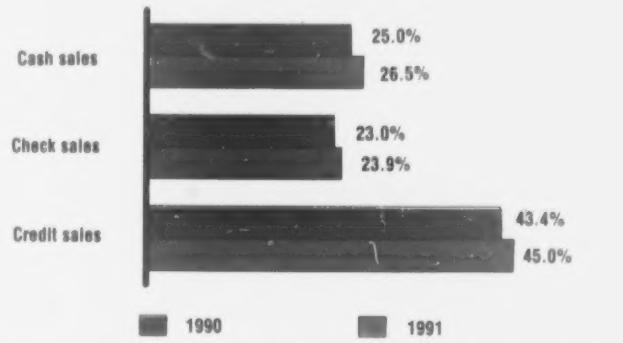
Approximately 25% of specialty apparel retailers report that they offer a company credit card, while 12% use a private-label card serviced by a financial underwriter.

Private-label credit card sales parallel the results of retailers offering their own credit. The average private-label credit transaction is approximately $55 and remains stable from the prior year.

For specialty companies that offer their own credit cards, credit sales are nearly the same as a percentage of total sales (35%) as for those companies that offer third-party credit (36%).

Third-party credit is universal at specialty apparel retailers. All respondents to the Arthur Andersen/*Chain Store Age Executive*

PERCENTAGE OF TOTAL TRANSACTIONS



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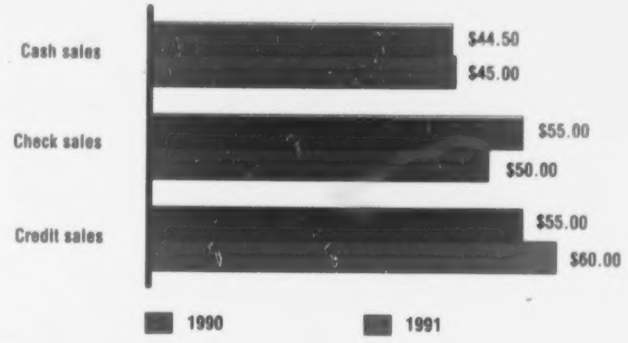
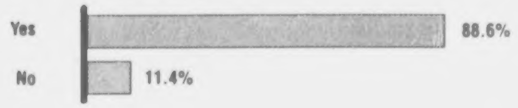
AVERAGE SALES TRANSACTION AMOUNTS

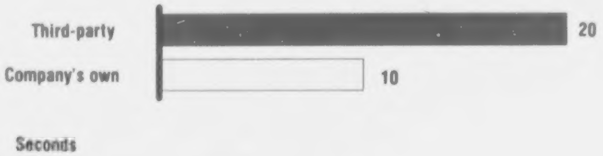


SPECIALTY/APPAREL

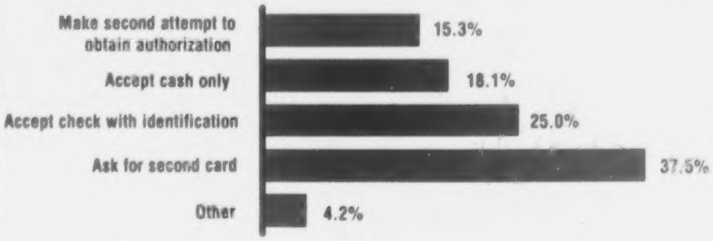
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



survey offer both MasterCard and Visa, and 81% offer American Express. Over 70% of the respondents report accepting Optima, while 63% accept Discover.

Debit cards are accepted infrequently, and very few respondents indicate an intention to implement them. For those retailers who offer their own credit, credit promotion is important. Fifty-six percent report that they establish goals to increase the number of credit card accounts.

In addition, two-thirds offer instant credit, and one-third provide incentives to new credit applicants. A like amount train their employees to influence customers to use the company's card.

Half of our respondents say discount rates do influence their practices at the point of sale. These retailers state that customer service is the principal reason for accepting credit.

The second most important reason is the opportunity to generate incremental sales through target marketing. Specialty retailers deemed attracting better customers and reducing cash handling less important. Very few of these apparel retailers sell their mailing lists.

Cost of Credit: Among specialty apparel retailers offering company credit cards, the cost of credit operations approximates 1.8% of total company sales and 2.2% of credit sales. These costs are slightly lower as a percentage of sales than those costs experienced by department store operators.

Like the rest of their industry, apparel retailers report skyrocketing bankruptcy write-offs (a 66% increase) and, therefore, increasing costs in the credit function. Bad-debt expense as a percentage of total credit costs is reported to be 26%; account servicing and account collection are both reported to be 15%; data processing (13%); and management (10%); with the remainder spread among new accounts, in-store credit and "other."

It appears that credit continues to be recognized as a key ingredient in customer loyalty and incremental sales. Therefore, retailers will necessarily have to absorb these increasing costs or find alternative ways to extend credit. In fact, 40% of them also report that they accept more cards than they did last year.

For smaller retailers or for those who can't handle their credit function efficiently, either co-branding or private-label services seem to be a logical alternative.

Almost half (43%) of specialty apparel retailers report an increase in credit card chargebacks during the last two years. Most of specialty apparel retailers (63%) report that they monitor chargebacks by customer almost twice as

DOES THE COMPANY OFFER . . .

	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	2.94	97.06
In store third-party credit applications	38.24	61.76
Instant credit upon receipt of application	70.00	30.00
Incentives to new credit applicants	30.00	70.00

THIRD-PARTY CREDIT PROCESSING METHODS

	Currently Using	Don't use, but plan to	Don't use, no plans to
Bank	68.97%	0.00%	31.03%
Third-party processors	70.83	0.00	29.17
Service bureau	5.56	5.56	88.89

SPECIALTY/APPAREL

many as last year. At that time, only 33% of the respondents reported that they monitored chargebacks.

Additionally, 72% of specialty apparel retailers report experiencing third-party credit card fraud. Approximately 10% of specialty apparel retailers indicate that third-party credit processors are "very effective" in helping them identify excessive or fraudulent chargebacks, and 48% are described as "somewhat effective."

Third-party credit costs represent 0.73% of total sales and 2% of credit card sales. The average discount rate is reported to be 1.85%, which is slightly higher than the average rate charged by MasterCard, Visa and Discover. And it's growing—more than half (57%) of these participants report that their discount rate has increased.

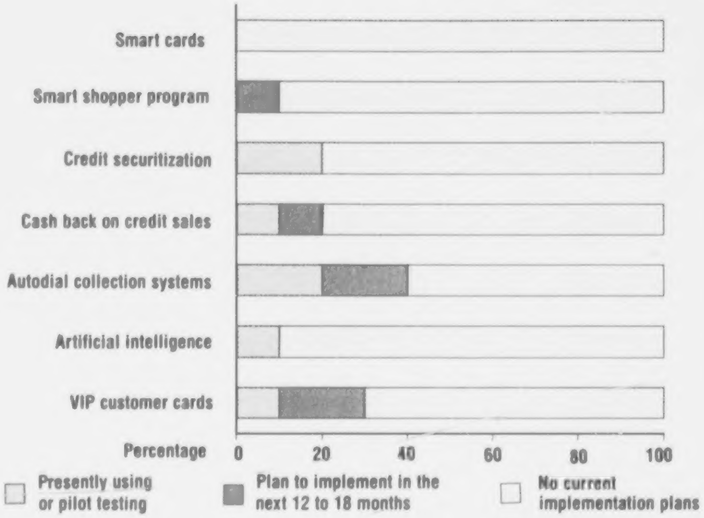
Fewer than one-fifth (19%) of these retailers intend to pass through discount rate increases to their customers. Among this group, there is a keen interest in increasing their understanding of discount rates.

Marketing: Specialty apparel retailers use the traditional marketing techniques in the credit area. All of the respondents with their own credit or private-label cards use promotional mailings, and 90% use billing stuffers to enhance sales. More than one-third offer discounts or issue coupons, while more than half use seasonal ad books or announce future promotions using their credit systems. Very few presently offer frequent-shopper programs, but one-third of this group plan to use this technique in the next 18 months. Similarly, about 20% plan to implement a discount or coupon program, a program to announce future promotions and more lenient credit terms during specific seasons.

Specialty apparel retailers prefer customer-profile information, demographic information and cooperative advertising for target marketing over mailing stuffers from their third-party credit card service.

Credit Technology: Most (89%) of the respondents indicate that they currently perform credit authorization at the point of sale. These retailers installed credit authorization technology primarily to improve customer service and reduce expenses and bankcard processing costs.

EMERGING RETAIL ISSUES



The retailers also say that increasing register productivity and eliminating bad credit situations are important problems to solve through technological improvements.

This group rates the third-party processors as effective service organizations. They rate MasterCard and Visa the highest for their speed of payment and authorization systems. American Express receives high marks for signage and service, the cost of which is reflected in their higher discount rate.

Emerging Trends: Specialty apparel retailers express very little interest in debit cards, smart cards, automatic teller machines, credit securitization, self-checkout and other technologies.

Approximately 63% of the respondents are using automated authorization systems and 45% report they are scanning.

More than one-fifth (21%) indicate that they intend to implement scanning within the next 12 to 18 months, and 3% report that they intend to implement automated authorization in the near future.

CASE STUDY

OUTSOURCING WORKS AT CHARMING SHOPPES

During recent years, the practice of "outsourcing," utilizing the services of a third-party processor with extensive network and technological expertise for credit related services, has become a growing practice in the retail industry.

A company credit card program can grow the customer base by building customer loyalty, increasing store traffic and adding to customer service by making purchasing convenient.

In addition, a company credit card program provides the means to target individual retail customers with advertising and marketing efforts and to manage the data base (i.e., file segmentation and behavior related controls).

In today's highly competitive retail environment, offering a company credit card can add a competitive edge in marketing and increase incremental sales.

These distinct advantages have been clearly demonstrated in the established relationship between Charming Shoppes Inc., and their company credit card outsourcing partner, JCPenney Business Services Inc.

Charming Shoppes, an $886 million chain based in Bensalem, Pa., operates 1,013 women's specialty stores in 40 states and the District of Columbia. The stores, operating principally as Fashion Bug and Fashion Bug Plus, specialize in the sale of moderately priced, fashionable merchandise in junior, misses and women's sizes.

Utilizing the services of a third-party processor affords any retailer substantial labor savings, operational management expertise, and enhanced customer service while providing immediate access to state-of-the-art technological services without capital investment.

Reliable outsourcing providers offer tangible benefits in both improved and additional processing products and services, freeing the retailer to concentrate on traditional areas of business expertise.

"Our Fashion Bug credit program continues to play a key role in our business. We market to this important segment on a frequent basis, and have developed unique programs that make our charge card worth carrying," said Kirk Simme, Charming Shoppes vice president-credit.

"Last year, we repurchased and now control a portion of our credit file, and we also installed new state-of-the-art terminals that not only speed the customer's checkout, but ensure the correct data is entered at the point of sale."

Simme says his credit receivables growth was aided by the support of JCPenney Business Services in processing portions of the company credit card.

Services provided by JCPenney Business Services for Charming Shoppes to support the Fashion Bug card include access to the JCPBSI new account processing system, which utilizes direct computer linkage to top credit bureaus to screen potential cardholders, and the production and mailing of approval or denial letters.

Also provided are encoding and embossing of new cards, delivery to cardholders through personalized mail and electronic point-of-sale authorizations.

Additionally, services include statement billing/mailing, remittance processing, handling customer service inquiries and collections.

The collections system utilized by JCPenney Business Services is referred to as a parameter-based system. With this system, JCPBSI facilitates Charming Shoppes' strategy.

Additionally, the balance and the number of times delinquent during a designated period can be used to trigger a pre-recorded message from an automatic-calling unit.

Since JCPenney Business Services provides component-based fees for each service, Charming Shoppes can modify the collection strategy while understanding the associated financials.

This approach to the business allows Charming Shoppes to protect its valued customers while at the same time managing the financial aspects of a proprietary credit portfolio.

Simme ensures Charming Shoppes' operating philosophy by incorporating it in the outsourcing strategy—nearly 150 associates and facilities committed to customer service, authorizations and collections are dedicated exclusively to Charming Shoppes.

In addition, services for data processing, statement processing, remittance and accounts receivable reporting are provided to Charming Shoppes within shared facilities to maximize economies of scale and leverage high-speed, capital intensive technologies.

Charming Shoppes establishes all of its credit policies and procedures, customizing all standards specifically to meet company objectives, and then these are implemented by JCPBSI. Charming Shoppes also establishes the approval criteria for new accounts and sets collection policies.

JCPenney Business Services has offered Charming Shoppes unforeseen advantages such as the production of special reports to assist in receivable financing strategies and the availability of multiple credit processing sites which can be utilized for disaster recovery.

Recently, the outsourcing partnership experienced a total power outage in the Charming Shoppes credit operations facility in Voorhees, N.J.

However, since JCPenney Business Services has access to multiple sites and network strength, store authorizations continued uninterrupted. Customer support services, such as customer service inquiries, new account processing and collections, were restored the same business day.

The necessary site access was sustained for over a week while permanent recovery was made at the credit operations facility.

SPECIALTY/NON-APPAREL

The largest response to the Arthur Andersen/*Chain Store Age Executive* survey came from speciality retailers in the non-apparel segments. Included in this category are retailers of consumer electronics, appliances, sporting goods, furniture, hardware, building supplies, home furnishings, gifts and accessories.

More than 40 of these retailers from all U.S. regions responded to the survey—an increase of 30% over last year.

Approximately one-half of the responses came from retailers with revenues of $50 million or less, and the remainder divided evenly between retailers with $50 million to $200 million and $200 million to over $1 billion in sales. The majority of these retailers are privately held companies.

Approximately 22% of these respondents offer their own credit cards to their customers, 18% offer private-label cards and 96% accept third-party credit cards.

Sales Trends: These non-apparel specialty retailers were more realistic in their predictions for sales than last year. Only 58% of this year's respondents (versus 70% last year) predict an increase in comparable store sales, and 19% (12% in 1990) expect them to remain unchanged from the prior year. The percentage of respondents expecting a decline in comparable store sales has increased to 23%, from 18% last year.

More than half of these retailers expect credit sales to increase as a percentage of their total sales, while 46% project credit sales to remain the same and only 2% expect a decline.

These retailers have experienced a fall-off in average transaction sizes over the year. The average cash transaction declined 20% between years to $15, while the average credit transaction remained the same at $40. The average personal check transaction decreased 7% over the prior year to $45.

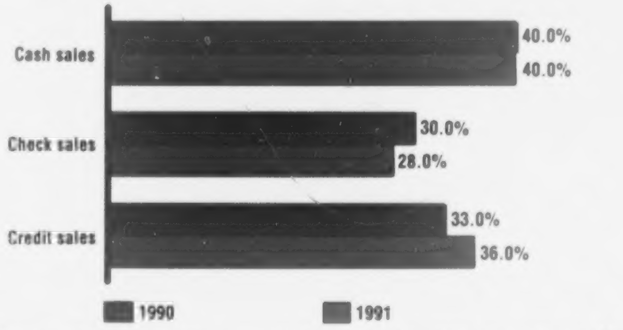
For those who offer their own credit card, credit sales have averaged 40% of sales for each of the last two years. For those with private-label cards, credit sales are 17% and have increased by two points from the prior year. Third-party credit sales averaged 25% of sales in both the 1991 and 1990 surveys, with half of the respondents reporting an increase in the number of cards accepted.

Only 20% of these retailers have attempted to quantify the incremental sales generated by their credit card business. However, 55% of these estimate incremental sales in the 5% to 15% range, while 45% state that they exceed 20%. Most of the respondents are convinced that if they stopped offering credit, their overall sales would plummet within six to 12 months.

Cost of Credit: Specialty retailers have also witnessed an explosion in their bankruptcy write-off rates. Bankruptcy write-offs have more than doubled since 1990, and this year's responses indicate that other write-offs have increased 50%.

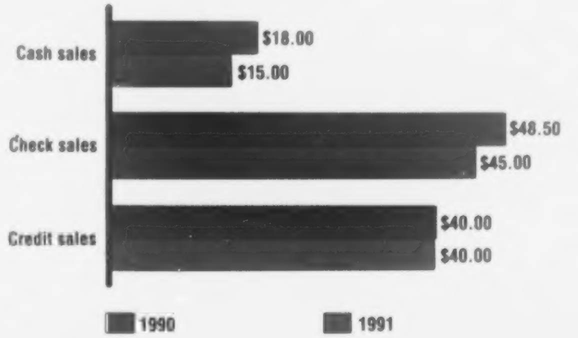
Credit operation costs for retailers with their own credit card average 1.5% of total sales and 2.9% of credit sales. Those retailers using private-label cards report that costs average 1% of total sales and 2% of credit sales. Third-party credit card costs average 0.7% of sales and 2% of credit sales with an average discount rate of 1.8%. About half of these retailers expect discount rates to increase moderately over the next 18 months, 42% expect rates to remain the same and the rest anticipate a decrease. Surprisingly, only 30% of these retailers who accept third-party

PERCENTAGE OF TOTAL TRANSACTIONS



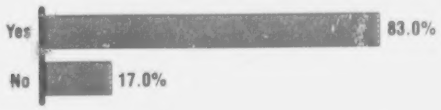
*Results represent the median of the responses, therefore total responses may not equal 100%.

AVERAGE SALES TRANSACTION AMOUNTS

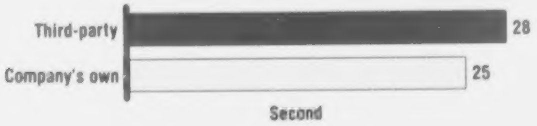


SPECIALTY/NON-APPAREL

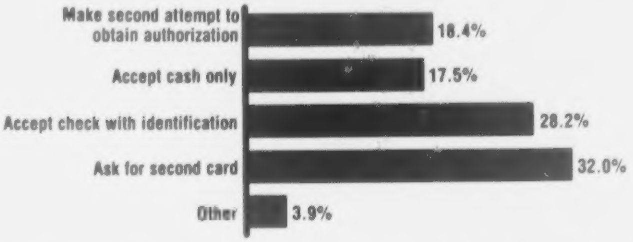
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



cards and offer their own cards attempt to train their employees to influence their customers to use the store cards.

Bad-debt expense is reported to represent 13% of total credit costs with account collection 22%; data processing, 17%; account servicing, 17%; and the remainder spread among new accounts, management, in-store credit and "other." Bad-debt expense has become a significantly higher percentage of total expense for the 1991 survey participants.

One-fifth (21%) of these non-apparel retailers acknowledge an increase in credit card chargebacks, while 55% report no change and 24% report a decrease. A surprising 53% admit that they do not monitor chargebacks by customer, and 68% report that their company has experienced third-party credit card fraud, as compared to 47% in 1990.

About 12% of these retailers describe third-party processors as "very effective," 56% say "somewhat effective," and 32% claim the processors are "not effective at all" or are "somewhat ineffective" in assisting their company in identifying excessive or fraudulent third-party chargebacks.

Marketing: Non-apparel retailers with company credit cards extensively utilize billing stuffers, promotional mailings and discounts/coupons in their marketing. About 82% use billing stuffers, 91% use promotional mailings and 70% use discounts/coupons. Very few of these retailers offer "merchandise for credit customers only" or frequent-shopper programs. In this segment, specialty retailers rate customer profiles equally with demographic information for target marketing and cooperative advertising as services they would like to receive from their third-party credit providers.

Among these hardlined retailers, 25% of the participants report that they attempt to influence the consumer's choice of payment, and half of these report success. Almost half of these participants encourage the use of cash; the other half promote their own card. Third-party credit card applications generally are not actively promoted in stores, even though 20% of the companies report that they are compensated for credit card applications attributed to them. Almost one-half of this group make applications available in their stores. Very few of these retailers offer "cash only" registers, none offered discounts for cash but a few require a minimum

DOES THE COMPANY OFFER . . .

	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	19.15	80.85
In-store third-party credit applications	46.81	53.19
Instant credit upon receipt of application	41.67	58.33
Incentives to new credit applicants	18.18	81.82

THIRD-PARTY CREDIT PROCESSING METHODS

	Currently Using	Don't use, but plan to	Don't use, no plans to
Bank	65.71%	2.86%	31.43%
Third-party processors	67.65	2.94	29.41
Service bureau	7.14	0.00	92.86

SPECIALTY/NON-APPAREL

charge amount—usually $10.

Credit Technology: A vast majority (83%) of these retailers now perform credit authorizations at the point of sale, and 30% of the remaining respondents plan to do so.

These retailers have installed credit authorization technology primarily to enhance customer service. Almost half (47%) of these respondents expect to implement magnetic swipe readers as part of their POS configurations within the next 18 months.

Technology to reduce bankcard processing costs, improve the company's float position, reduce expenses and clerical errors are reported in the above order of importance.

Average credit authorization time at the register is 28 seconds for third-party cards and 25 seconds for the company cards, with three quarters of the respondents falling within a range of 14 seconds to 90 seconds.

If credit authorization is initially denied, most of these retailers ask for a second credit card and then ask for a check with appropriate identification.

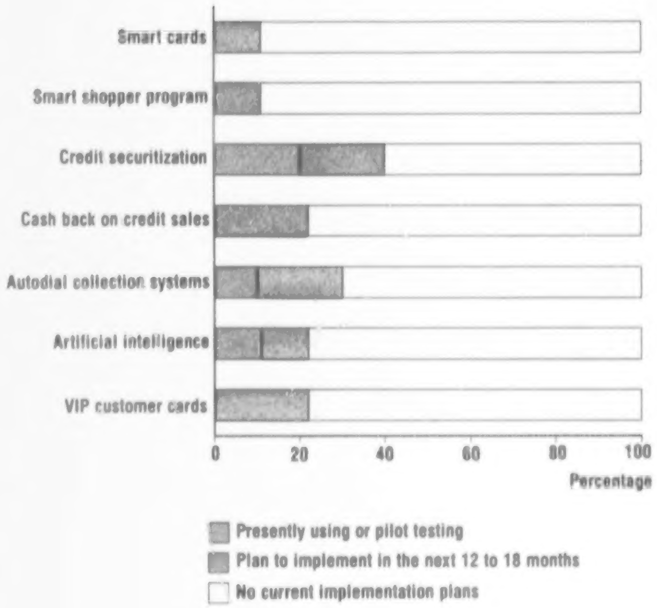
Emerging Trends: Specialty retailers in this group express very little interest in debit cards, smart cards, automatic teller machines, self-checkout and other technologies. More than half (65%) use or intend to use automated authorization systems, and 18% scan. Scanning continues to be popular, with 34% indicating that they intend to implement scanning within the next 12 to 18 months.

Half of the respondents report that they expect discount rates for third-party credit cards to increase, while 8% expect a decrease and 42% expect rates to remain the same. Most (79%) say they would not pass such an increase on to the customers, while 21% don't know whether they will pass on these costs.

It appears that these specialty retailers were hit hard by the reluctant shopper last Christmas and are optimistic that the worst is over.

It will be interesting to see if in the future, more of these retailers seek incremental sales through the enhanced credit services of the third-party providers, private-label services or their own credit operations.

EMERGING RETAIL ISSUES



DISCOUNT STORES

Value-conscious consumers and price-sensitive shoppers abound in periods of recession. Thus, discounters become the popular retailers in difficult economies.

Fourteen companies responding to the Arthur Andersen/*Chain Store Age Executive* retail credit survey identified themselves as discount stores, including discount department store operators, wholesale clubs and discount apparel retailers.

Approximately one-third (31%) of these firms report sales of $200 million to $999 million; 15% have sales of $50 million to $200 million; and 54% report sales of less than $50 million.

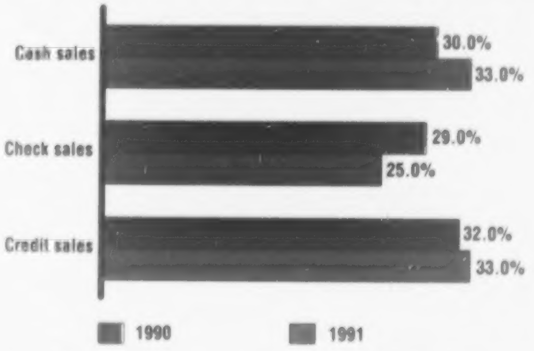
Many of these retailers are headquartered in the Northeast, but the lion's share of the discounters operate throughout the Northeast, Midwest and Southeast, if not nationally. Public companies account for 36% of the discount store respondents.

These discount and value-oriented retailers rely on third-party cards to generate their credit sales. Only 9% offer their own credit cards, another 8% offer private-label cards, but all of them accept MasterCard and Visa. At least 50% accept Discover, American Express, Optima and other cards. One-quarter of these participants have quantified the impact of their credit sales and report that credit generates incremental sales of 6% to 10%.

These participants are unanimous in reporting that sales would decline as much as 20% over 12 months, if they stopped accepting credit cards. Although the principal rationale for accepting credit is reported to be incremental sales, very few of these operators believe they can afford their own card or a private-label service.

Sales Trends: Discounters are bullish on the outlook for the economy. Since shoppers are looking for deals, discounters perceive themselves to be in an advantageous position. Many discount store operators predict strong growth in value-oriented retailing: 72% expect comparable store

PERCENTAGE OF TOTAL TRANSACTIONS



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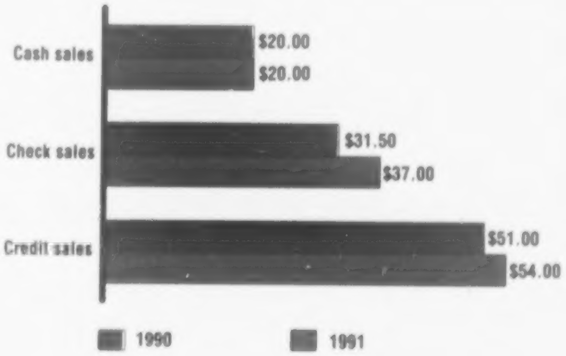
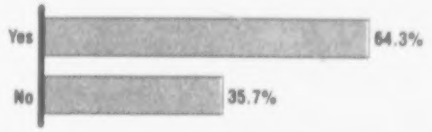
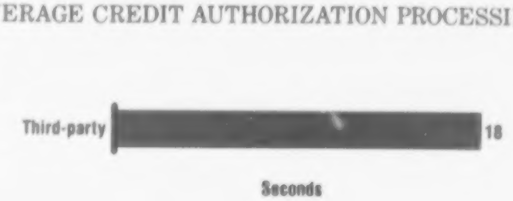
AVERAGE SALES TRANSACTION AMOUNTS



IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?

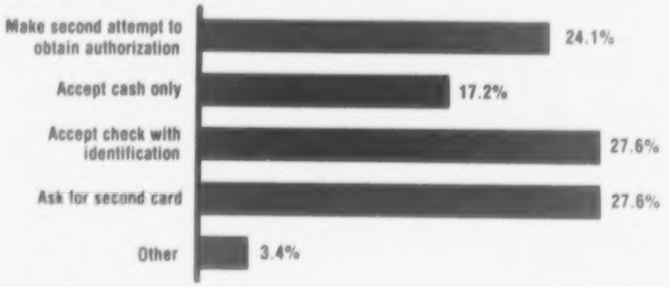


AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



DISCOUNT STORES

PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



DOES THE COMPANY OFFER . . .	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	42.86	57.14
In-store third-party credit applications	50.00	50.00
Instant credit upon receipt of application	0.00	100.00
Incentives to new credit applicants	33.33	66.67

sales to increase, 21% expect sales to remain the same and only 7% expect a decrease. And 69% predict that credit sales as a percentage of total sales will increase. None expect a decline.

The average cash transaction between years remained the same at $20, while the average credit transaction increased 6% to $54. The average check transaction increased by 18% to $37.

Credit sales are 30% of total sales for discount stores, up four percentage points over 1990.

Cost of Credit: Discounters accept more credit cards than last year, reflecting the four percentage point increase in credit sales and the increasing penetration of the Discover Card. Sixty-two percent of this group report an increase in discount rates; a similar percentage anticipate that discount rates will increase moderately in the next 18 months. A small minority expect to pass this increase on to their customers. Although the cost of credit has increased for this group, credit sales are now significantly more important to their total sales.

About 31% of these companies say credit card chargebacks are increasing, while 23% report decreases and 46% report no change. More than half (62%) of the discounters report they monitor third-party credit card chargebacks by customer, and 23% have experienced third-party credit fraud.

About 15% of these discounters describe third-party card processors as "very effective," 46% as "somewhat effective" and 39% as "not effective at all" or "ineffective" in helping them identify excessive or fraudulent third-party chargebacks.

Third-party credit card costs are 0.5% of total sales for discount stores, and about 1.6% of credit sales. The average discount rate is 1.9%, ranging from 1.6% to 3%. Three-quarters of the discounters report the discount rate to be within a range of 1.2% to 3.6%. The Discover Card, MasterCard and Visa have an average discount rate of 1.6%.

Marketing: Cash is still respected by discount retailers. Forty percent report designated "cash only" registers, and one respondent offers discounts to cash customers. While more than 50% offer third-party credit applications in their stores, only 30% promote them. There is a direct correlation between being compensated and promoting third-party applications. Only 15% of the discounters have a minimum amount charge policy. Discounters are convinced that their customers are very interest-rate sensitive and that this is the overriding influence on their customers' credit card decision. More than two-thirds of these retailers believe interest rates should be standardized among the various states.

Discount stores put more stock in the power of co-op advertising than their cousins in department stores and specialty retailing. Co-op advertising is the service they would most like to receive from third-party credit providers, followed by demographic information for target marketing, customer profiles and mailing stuffers.

Credit Technology: Only 64% of the discount stores perform credit authorization at the point of sale. They cite reducing expenses, bankcard processing costs and improving customer service as the primary reasons for installing credit authorization technology. Increasing register productivity, eliminating bad credit, increasing cash float, decreasing clerical errors and gaining a competitive edge are also reported in this order of importance.

The average credit authorization time at the register is 18 seconds for third-party credit cards, with 75% of the respondents falling within a range of 10 to 45 seconds.

Emerging Trends: Discount store operators report little interest in debit cards, EDI in credit or self-checkout.

One-quarter use scanning devices, and another 58% intend to implement scanning within 12 to 18 months. A vast majority (75%) use automated authorization, and the remainder do not plan to implement this technology.

MASS MERCHANTS

Eight retailers responding to the Arthur Andersen/*Chain Store Age Executive* survey of retail credit trends classified themselves as mass merchants. One of these companies reports revenues in excess of $1 billion, two report revenues in the $200 million to $999 million range and the rest report revenues under $200 million.

Half of the general merchandise retailers are headquartered in the Northeast. The other half represent the Midwest and Northwest. Three of these mass merchants are public companies.

Only one of these retailers offers its own credit card to customers, and two of them utilize private-label card services. This segment of retailers is clearly dependent on third-party credit. All of these participants accept Visa and MasterCard, 63% accept Discover and one takes American Express.

Sales Trends: In last year's survey, we noted that this group was quite "bullish" in spite of the gloomy economic outlook. Apparently, economic reality has dampened their optimism. As we go to press, only 20% of the responding general merchandise/mass merchants expect comparable store sales to increase, another 20% expect them to remain the same and 60% expect comparable store sales to decline.

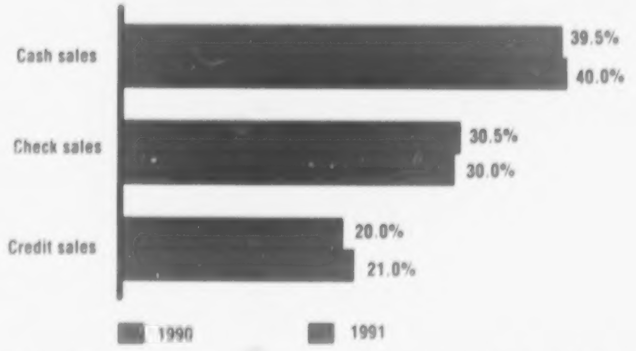
Mass merchandisers are equally pessimistic about plastic: only 20% of these companies project credit sales as a percentage of total sales to increase, and the remainder expect no change.

The average cash transaction between 1990 and 1991 increased 28% to $55, and the average check transaction rose 9% to $62. Credit transactions remained unchanged at an average of $70.

Third-party credit averaged 21% of sales for general merchandise/mass merchants. Credit increased slightly as a percentage of total transactions from 20% to 21%, offset by a reduction in sales by check.

Cost of Credit: The cost of third-party credit among the general merchandise/mass merchants av-

PERCENTAGE OF TOTAL TRANSACTIONS



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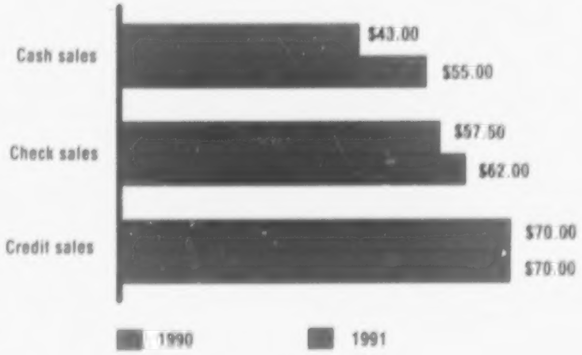
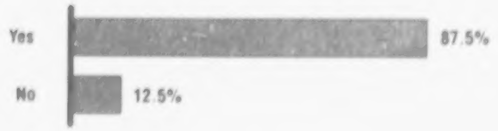
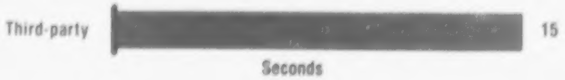
AVERAGE SALES TRANSACTION AMOUNTS



IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?

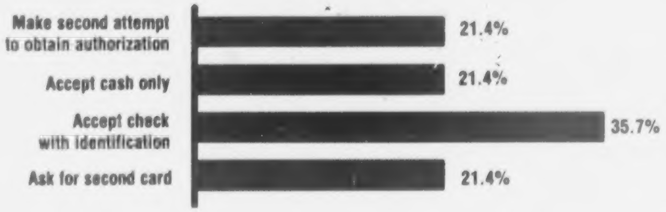


AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



MASS MERCHANTS

PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



DOES THE COMPANY OFFER . . .		
	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	42.86	57.14
In-store third-party credit applications	42.86	57.14
Instant credit upon receipt of application	50.00	50.00
Incentives to new credit applicants	0.00	100.00

THIRD-PARTY CREDIT PROCESSING METHODS		
	Currently Using	Don't use, no plans to
Bank	60.00%	40.00%
Third-party processors	50.00	50.00
Service bureau	20.00	80.00

erages 0.5% of total sales and 1.7% of credit sales, down slightly from 1.9% reported last year. The number of responses to questions relating to categories of credit costs was insufficient to report meaningful findings.

Nearly 35% of this group report credit card chargebacks are increasing, while only 17% report decreases. Fifty percent are unaware of any trend. Very few of these companies report that they monitor credit card chargebacks by customers, yet one-half experience third-party credit card fraud.

Almost 70% of these companies say third-party credit card processors are "very effective" or "somewhat effective" in identifying fraudulent third-party chargebacks.

Visa and MasterCard discount rates equal the industry average of 1.7%, while Discover discounts average 1.4%. One-third say their discount rate has increased, while one-half report a decline. The majority (67%) expect discount rates to increase moderately over the next 18 months. Less than 20% of these participants will pass that cost increase to customers, expecting that increased sales and gross profit will absorb the additional costs.

While 83% of these cost-conscious retailers say rates charged by credit card providers influence their tactics at the point of sale, more than two-thirds haven't attempted to quantify the incremental sales impact. All retailers report that sales would spiral downward at a rate of 5% to 15% within a year without credit cards.

The majority (71%) would like to see the maximum interest rate standardized from state to state. More than two-thirds of these retailers are accepting more credit cards.

Marketing: These merchants, like their brethren, are trying to increase sales through credit. Third-party credit averages 21% of sales. The overwhelming reason they give for offering credit is to increase sales; customer service is a distant second. However, none of these retailers use their credit information to predict sales.

This is the only group to say credit card signage is the leading influencer of credit card. Very few of these respondents are compensated for displaying signs or offering applications in their stores. Forty percent report they offer "cash only" registers, and 30% require a minimum charge of between $10 to $15.

Demographic information for target marketing, customer profiles and cooperative advertising top mailing stuffers as services these retailers want from third-party credit providers.

Credit Technology: While 88% of the responding general merchandise/mass merchants already authorize credit at the point of sale, the rest say they do not plan to follow suit.

Customer service and increasing productivity at registers are the primary reasons for implementing credit technology, followed by (in order of preference) efforts to reduce bankcard processing costs, decrease payroll expenses, eliminate bad credit and gain a competitive edge.

Third-party credit card authorization averages 15 seconds, ranging from eight seconds to 26 seconds.

Emerging Trends: General merchandise/mass merchants report little or no interest in debit cards, self-checkout and EDI in the credit function, but there is interest in exploring debit cards and/or EDI in the next 12 to 18 months. Two-thirds use scanning and automated authorization, and 17% intend to implement both in the near future.

HOME CENTERS

This year's survey results reflect the impact the economic downturn has had on the home center segment.

Fourteen home center operators participated in this year's Arthur Andersen/*Chain Store Age Executive* Survey of Retail Credit Trends. The participating companies are headquartered in the West, the Southeast, the Midwest and the Northeast. The majority of these companies are privately held; three are publicly held.

One participant reports sales in excess of $1 billion, five companies report sales in the $200 million to $999 million range, three report sales between $50 million to $200 million and five respondents report sales under $50 million.

Half of the home center participants use private-label credit cards, while 86% offer either their own or private-label cards. All of the responding home centers accept third-party credit cards, including MasterCard (100%), Visa (100%) and Discover (85%).

Sales Trends: Reality hit home center merchants this year. Only 30% of the respondents expect comparable store sales to increase in 1991 versus 56% last year; 54% expect flat sales compared to 44% in 1990; and 16% expect a decline—something no one predicted in 1990. Over half of this year's home center participants expect credit sales to play a more important role in their future business.

The average cash transaction between 1990 and 1991 increased 20% to $30, while the average credit transaction rose 5% to $63. The average personal check transaction increased 2% to $46.

At present, credit sales represent one-third of total home center sales, up from less than 20% last year. For those with their own credit, credit sales average 23% of total sales, a slight decrease from the prior year. For those with private-label service, credit sales are 10% of total sales, three percentage points higher than 1990. Third-party credit card sales also increased three percentage points on average, from 21% to 24% over the year.

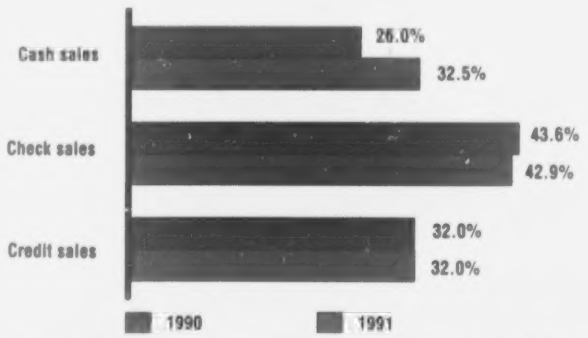
Generating incremental sales is the most frequently mentioned rationale for offering credit, with customer service a distant second choice. More than one quarter of the home center operators say accepting credit cards adds incremental sales of 5% to 15%. They are also convinced that sales would plummet about 20% within six months if they eliminated credit cards in their stores.

The results of this year's study suggest that credit has become a more important ingredient to the sales success of home centers.

Cost of Credit: For home centers, the cost of credit operations as a percentage of total sales averages 0.5%, down from 0.8% in 1990. For retailers offering their own credit card, credit costs average 0.4% of total sales, up from 0.3% last year. For those companies using private-label services, total costs approximate 0.3% of sales and 0.9% of credit sales which parallels those operators using their own cards.

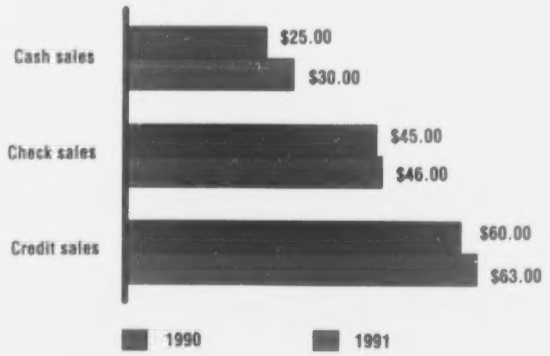
Bad-debt expense represents 15% of total credit costs, account collection 10%, account servicing 15%, credit management 10%, with other categories of costs sharing an equal percentage. Bad-debt expense has almost doubled from last year as a result of the declining economy. Bankruptcy write-offs have increased in excess of 60% over last year, reflecting the skyrocketing incidence of personal bankruptcy.

PERCENTAGE OF TOTAL TRANSACTIONS

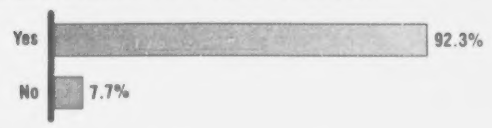


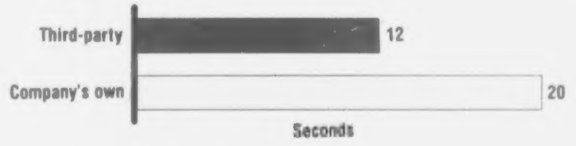
*Results represent the median of the responses, therefore total responses may not equal 100%

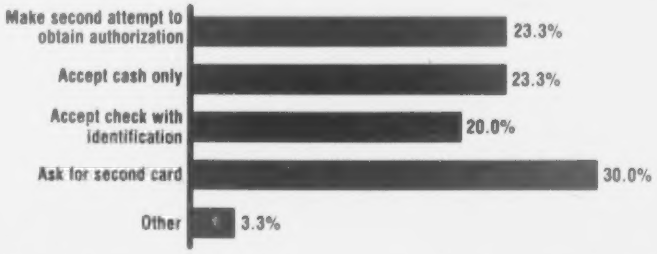
AVERAGE SALES TRANSACTION AMOUNTS



HOME CENTERS


IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?


AVERAGE CREDIT AUTHORIZATION PROCESSING TIME


PROCEDURES WHEN CREDIT AUTHORIZATION DENIED

Less than one-fourth of the surveyed home center retailers report increases in credit card chargebacks, down from one-third in 1990. The majority of home centers (62%) report that chargebacks have stabilized, while the remaining respondents report decreases.

These results show an improvement over the chargeback figures of 1990. This may be the result of closer monitoring of customer chargebacks. In 1990, only one-third of those surveyed actively monitored chargebacks; half report they monitor chargebacks in 1991. Fraud has, however, remained consistent—approximately 55% of home center retailers report experiencing third-party credit fraud in both years.

While 20% of home center retailers describe third-party credit card processors as "very effective," 50% say they are "somewhat effective" and 30% say they are "not effective at all" in helping their companies identify excessive or fraudulent third-party chargebacks. These results represent a slight shift in effectiveness over last year's responses.

Third-party credit card costs constitute 0.4% of total company sales for the participating home centers and 1.5% of their credit sales. The average discount rate is reported to be 1.7%, ranging from 1.5% to 3%. Three-quarters of the participants report discount rates between 1.6% and 1.8%.

Half of these participants report an increase in their discount rate, 14% report a decline and the rest have experienced no change. Over half the participants anticipate a moderate increase over the next 18 months and none predict a decline. Sixty-four percent of the home center operators will not pass an increase to customers. About 29% aren't certain about passing increases, and one retailer fully intends to pass through these costs.

Marketing: Marketing has become a more important tool for the home center retailer in 1991. This year's results show substantial increases in the use of various marketing techniques.

More than 85% of the home center retailers with their own credit operations report using billing stuffers; 71% use promotional mailings and coupons. Approximately 20% report using "merchandise for credit customers only." Over 40% of the participants offer more lenient credit terms during certain seasons.

Last year no home centers reported offering more lenient credit terms and only 40% used coupons. More than half the respondents plan to implement frequent-shopper programs and targeted mailings using customer profiles.

Even though credit sales appear to be more critical to home centers than to some other retail businesses, none of the surveyed home center operators establish goals to increase the number of accounts—nor do they plan to. Credit promotion appears to be an opportunity for this retail segment. Additionally, very few try to influence the customer to use the in-house card at the point of sale.

Home centers using private-label providers avail themselves of a full range of services, including promotional mailers, customer profiles and demographic information for targeted marketing. However, these retailers appear to use fewer of these techniques than those who have their own credit cards. Home centers using private-label cards report that cost benefit is the principal factor influencing them to adopt this type of card.

These retailers are pleased with the services of their third-party card providers. Services they prefer (in descending order) are: mailing stuffers, demographic information for targeted marketing, customer profiles and cooperative advertising.

Credit Technology: More than 90% of the responding home centers perform credit authorization at the point of sale. Those who do

HOME CENTERS

not report they plan to soon.

Home centers report that they have implemented credit technology to improve customer service. Other reasons, in order of importance, are to increase register productivity, reduce bankcard processing costs and to gain a competitive advantage.

Credit authorization processing times at the register average 12 seconds, down from 21.5 seconds in 1990, for third-party cards and 20 seconds for company cards.

Emerging Trends: Home center operators are not interested in credit securitization, self-checkout and artificial intelligence. Only 42% of these companies have installed automated credit authorization systems although an additional 22% indicate they plan to. Over 42% have installed scanning, and another 22% plan to install it within 12 to 18 months.

At least one participant intends to implement smart shopper programs, smart cards, EDI in the credit function, autodial collection systems and VIP customer cards. None of the home center retailers indicate they have or plan to install automated teller machines.

THIRD-PARTY CREDIT PROCESSING METHODS

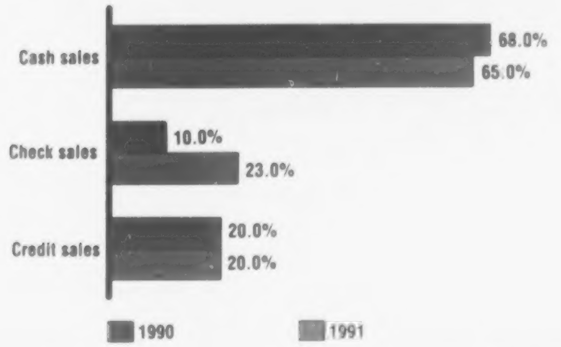
	Currently Using	Don't use, but plan to	Don't use, no plans to
Bank	84.62%	0.00%	15.38%
Third-party processors	33.33	11.11	55.56
Service bureau	12.50	0.00	87.50

DOES THE COMPANY OFFER . . .

	Yes	No
A discount to cash customers	14.29%	85.71%
"Cash only" registers	28.57	71.43
In-store third-party credit applications	57.14	42.86
Instant credit upon receipt of application	28.57	71.43
Incentives to new credit applicants	42.86	57.14

CONVENIENCE STORES

PERCENTAGE OF TOTAL TRANSACTIONS



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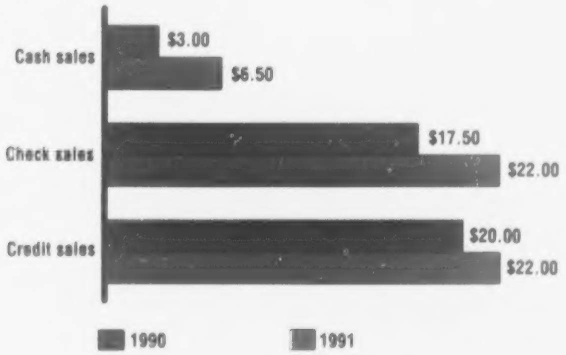
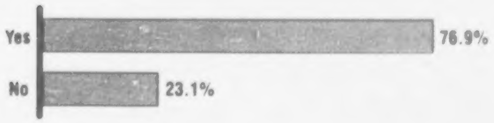
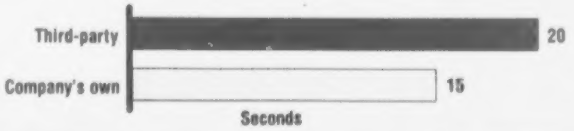
AVERAGE SALES TRANSACTION AMOUNTS



IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



Convenience stores responding to the Arthur Andersen/*Chain Store Age Executive* Survey of Retail Credit Trends range from those with annual revenues of less than $50 million to over $1 billion. More than two-thirds (77%) of the respondents report annual revenues of less than $200 million.

This category includes food marts, drug stores and general market stores, as well as large convenience store chains. The majority of the respondents are from the southern region of the United States and are privately held companies.

Approximately 55% of the respondents offer their own credit, up from 40% last year. None of these participants use private-label services, although more than 90% accept third-party cards.

Sales Trends: Despite long-term struggles and significant financial problems, the convenience stores responding to this year's survey are more optimistic than in the past about trends in credit sales and comparable store sales.

Almost half (46%) of the respondents predict their percentage of credit sales to total sales will increase over 1990 figures. Further, 85% of these respondents expect comparable store sales to increase, while only 15% expect comparable sales to be flat. These retailers are the most optimistic, in sharp contrast to the supermarket respondents and may be witnessing the national economy rebound before other segments.

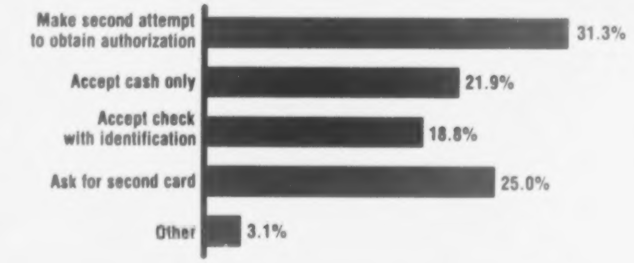
The average cash transaction increased from $3 to $6.50 between 1990 and 1991. Personal check and credit transactions also increased. The average check amount increased 26% to $22, while the average credit transaction increased 10% to $22.

Credit sales make up 16% of total sales, which is consistent with the prior year. Most convenience store operations accept at least three major third-party cards. Private-label cards are not mentioned by the respondents.

Cost of Credit: For retailers of-

CONVENIENCE STORES

PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



DOES THE COMPANY OFFER . . .

	Yes	No
A discount to cash customers	15.38%	84.62%
"Cash only" registers	15.38	84.62
In-store third-party credit applications	30.77	69.23
Instant credit upon receipt of application	11.11	88.89
Incentives to new credit applicants	11.11	88.89

fering their own card, the cost of credit card operations as a percentage of sales averages 0.5% of sales and 1% of credit sales. In total, account collection and bad-debt expense each represent 20% of the total credit costs, with in-store credit accounting for 10% and management of credit costing 15%. The remainder is spread among account servicing, new accounts and data processing.

While 20% of the respondents acknowledge an increase in credit chargebacks, 58% report that chargebacks have remained stable. Almost two-thirds (60%) of the convenience store respondents believe that their processors are effective in monitoring third-party credit chargebacks.

Finally, only 33% of the respondents indicate that they have experienced third-party credit fraud, less than any other retail group surveyed.

Marketing: About half of the convenience retailers that use their own credit cards use billing stuffers and/or coupons in their marketing. None of these retailers offers "merchandise for credit customers only," frequent-shopper programs, seasonal ad books or more lenient credit terms during specific seasons to increase sales.

Unlike many other segments, this group does not report a significantly higher incidence of bankruptcy over the prior period, nor are other write-offs reported to be increasing. While half of the participants offer their own credit, only one company says it establishes goals to increase the number of credit card accounts.

Similarly, only one participant offers either instant credit upon receipt of the application or incentives to new credit applicants. Less than 20% of these respondents quantify the incremental sales impact of their credit card operations, yet 100% are convinced that their sales will be significantly damaged if they stop accepting credit. Approximately one-third say they use credit information to predict sales.

Convenience retailers rank cooperative advertising highest, followed by mailing stuffers, demographic information and customer profiles as services they like to receive from third-party credit providers.

Credit Technology: While 77% of the respondents perform credit authorization at the point of sale, the majority of the remaining respondents plan to. These retailers implement credit authorization technology primarily to enhance customer service, reduce bank card processing costs and improve the company's cash float position.

Convenience retailers also employ credit authorization technologies to reduce expenses, gain a competitive edge and decrease clerical errors at the point of sale and in the back office.

The average credit authorization processing time at the register for third-party credit cards is 20 seconds, with three-quarters of the respondents falling within a range of 14 to 68 seconds.

Emerging Trends: Convenience retailers are interested in automated authorization and scanning techniques. Approximately 75% of the respondents say they are using automated authorization technology, and an additional 8% intend to use this technology in the next 12 to 18 months. The 15 percentage point increase over last year's response indicates the continuing penetration of this cost-efficient technology.

Similarly, 42% of the respondents use scanning, and an additional 8% intend to implement it within 18 months.

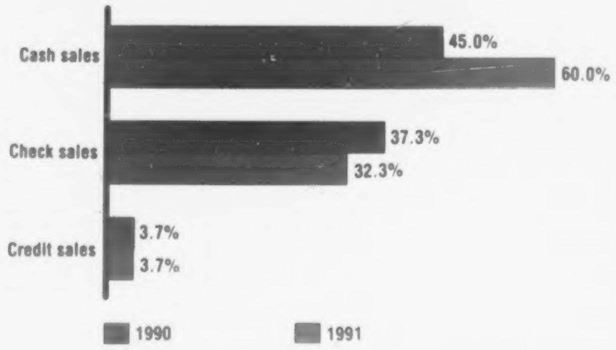
Only 9% of the respondents expect to add more ATMs in 12 to 18 months. Similarly, use of debit cards will increase during this period as approximately 9% of the respondents plan to implement them within 12 to 18 months.

Most of the respondents are not interested in smart shopper programs, cash back on credit sales, self-checkout, artificial intelligence and EDI in the credit function.

About one-third of the respondents report they expect discount rates for third-party credit cards to increase; 17% expect a decrease; and 50% expect no change. Only 25% are certain they would pass such an increase to customers, while 50% say they would not.

SUPERMARKETS

PERCENTAGE OF TOTAL TRANSACTIONS



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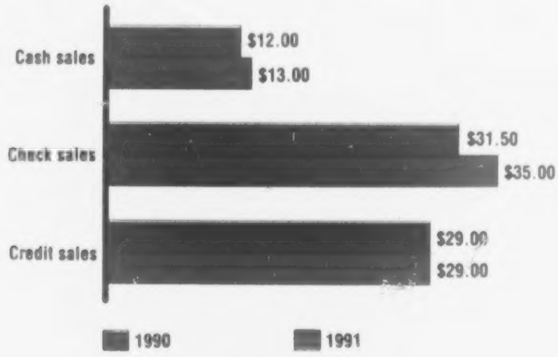
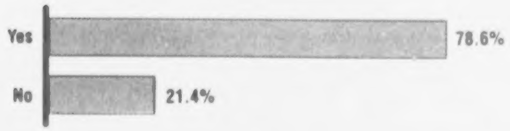
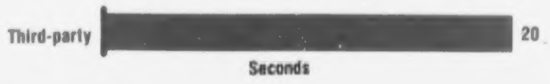
AVERAGE SALES TRANSACTION AMOUNTS



IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



The supermarket industry mirrors the state of the national economy. Real sales in this industry segment dropped in 1990, the second reported decline in 10 years. Even the bigger chains with larger stores were generally unable to keep pace, and they too experienced real sales declines.

Supermarket retailers are approaching 1991 with numerous concerns, including the impact and duration of the recession, the effect of the growing wholesale clubs sector, customer price sensitivity, the weak financial condition of many over leveraged chains and combative competition in most major markets.

In the face of this news, we look for supermarkets to react aggressively and spearhead new drives in new directions. More and more, supermarkets are looking at credit and electronic cash payment systems to drive their sales, maintain their customer base and give them insight into customer purchasing habits.

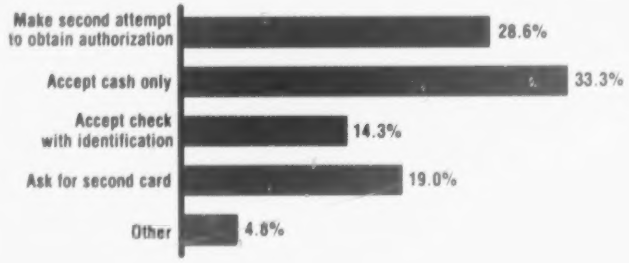
The supermarket respondents seem particularly focused on credit, including debit systems and check authorization systems, not only for the convenience of customers, but also for the micromarketing opportunities they offer the retailer.

More than 15 of the respondents to the Arthur Andersen/*Chain Store Age Executive* survey identify themselves as supermarkets. Approximately 20% of these retailers boast revenues in excess of $1 billion. Fewer than half (47%) had sales under $200 million. The remainder of the respondents report sales in the $200 million to $999 million range. The majority of these retailers are privately held companies.

Approximately 67% of supermarket respondents report that they accept third-party credit cards, up from 43% in 1990. MasterCard and Visa are utilized by two-thirds of the respondents, while Discover is accepted by one-third of the group. This increase reflects the heavy focus third-party providers have placed on pene-

SUPERMARKETS

PROCEDURE WHEN CREDIT AUTHORIZATION DENIED



trating and expanding into the supermarket industry.

Recently several third-party providers have dropped the discount rate to 1% in order to aggressively pursue supermarkets. Approximately 20% of the supermarkets surveyed offer their own credit cards. None offer private-label cards. In general, there were not enough responses to many questions in the survey to draw meaningful conclusions about credit costs and technology.

Sales Trends: As a group, supermarket retailers are markedly optimistic in their expectations for sales. Similar to our 1990 survey participants, 64% of these respondents project an increase in comparable store sales, and 14% expect same store sales to remain unchanged from 1990.

An unusually high number of respondents (22%) say they expect a decline in comparable store sales, clearly reflecting some skepticism about future economic trends. Our 1991 results portray an overall shift towards pessimism.

Approximately half of the responding supermarket retailers who accept credit cards expect credit sales to increase as a percentage of total sales. Forty percent expect credit sales to remain the same, and 10% anticipate a decline.

For supermarkets respondents, credit sales as a percentage of total sales increased from 1.6% to 1.75% last year, and these same companies report an increase in the number of cards accepted. Two-thirds of these respondents evaluate their third-party credit processors as very or somewhat effective in helping them identify excessive chargebacks that may be fraudulent.

Marketing: Supermarket retailers indicate that they value receiving customer profiles, demographic information for target marketing and cooperative advertising from third-party credit providers. There was an insufficient response rate from supermarket retailers with their own credit cards to draw any conclusions about marketing techniques.

Emerging Trends: Retailers in this group express surprisingly little interest in private-label cards or in-house credit, self-checkout and other technologies. Approximately 77% of this group report that they scan, and another 8% intend to implement scanning within the next 12 to 18 months. Over 60% indicate that they use or intend to implement automated authorization systems.

Close to 70% of the reporting supermarket retailers now have automatic teller machines in store locations, up from less than 50% of the respondents in 1990. Debit cards also represent an area of expansion and interest, with 50% of the respondents indicating they currently accept debit cards or will begin to in the next 12 to 18 months.

Supermarket retailers are extremely conscious of discount fees because of their low operating margins. Over 80% report that third-party rates influence their payment preference activity at the point of sale. Few of the respondents have attempted to quantify the impact of credit in generating incremental sales, but those who have report that incremental sales increased approximately 5%.

Customer service is the principal reason cited for offering credit, although incremental sales increase is a very close second. Reducing cash handling, attracting better customers and targeting marketing opportunities are distant runners-up.

DOES THE COMPANY OFFER . . .

	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	50.00	50.00
In-store third-party credit applications	41.67	58.33
Instant credit upon receipt of application	0.00	100.00
Incentives to new credit applicants	0.00	100.00

THIRD-PARTY CREDIT PROCESSING METHODS

	Currently Using	Don't use, but plan to	Don't use, no plans to
Bank	100.00%	0.00%	0.00%
Third-party processors	40.00	20.00	40.00
Service bureau	0.00	0.00	100.00

APPENDIX

AVERAGE SALES TRANSACTIONS $

	PARTICIPANTS BY TYPE OF RETAILER															
	Convenience stores		Department stores		Discount stores		Mass merchants		Home centers		Specialty/ apparel		Specialty/ non-apparel		Supermarkets	
	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990
Cash	6.50	3.00	20,00	20.50	20.00	20.00	55.00	43.00	30.00	25.00	45.00	44.50	15.00	18.00	13.00	12.00
Check	**22.00**	**17.50**	**36.50**	**34.00**	**37.00**	**31.50**	**62.00**	**57.50**	**46.00**	**45.00**	**50.00**	**55.00**	**45.00**	**48.50**	**35.00**	**31.50**
Credit	22.00	20.00	45.00	47.00	54.00	51.00	70.00	70.00	63.00	60.00	60.00	55.00	40.00	40.00	29.00	29.00

AVERAGE COST OF CREDIT ACTIVITIES AS A PERCENT OF TOTAL COSTS

–	PARTICIPANTS BY TYPE OF RETAILER							PARTICIPANTS BY 1991 SALES VOLUME IN $MILLIONS				
	Conv Store	Dept Store	Discount Store	Mass Merchant	Home Center	Spec/ Apparel	Spec/Non-Apparel	Super-market	$0-$50	$50-$200	$200-$999	$1,000 or more
New accounts	10.00	10.00	10,00	15.00	5.00	5.50	10.00	5.00	9.00	10.00	23.70	9.15
Account servicing	**10.00**	**20.00**	**10.00**	**15.00**	**15.00**	**15.00**	**17.50**	**10.00**	**15.00**	**15.00**	**10.00**	**20.80**
Account collection	20.00	14.10	15.00	10.00	10.00	15.00	22.50	70.00	14.00	20.00	15.00	14.10
In-store credit	**15.00**	**2.00**	**10.00**	**5.00**	**5.00**	**5.00**	**6.00**	**00.0**	**5.00**	**10.00**	**2.25**	**2.50**
Data processing for credit	10.00	5.80	15.00	25.00	10.00	12.25	17.50	00.0	17.50	12.50	6.95	4.30
Management of credit	**15.00**	**8.00**	**10.00**	**25.00**	**10.00**	**10.00**	**5.00**	**10.00**	**14.00**	**10.00**	**5.90**	**10.00**
Bad-debt expense	20.00	40.10	30.00	5.00	15.00	26.25	13.00	5.00	12.50	20.00	26.65	30.55
Other	00.00	00.00	00.00	00.00	30.00	11.00	8.50	00.00	13.00	2.50	9.55	8.60

TERMS AND DEFINITIONS

Discount or Interchange Rate: Fees charged (usually a percentage of total transaction amount) by entity which processes credit card transactions.

Credit Securitization: Financing technique which allows retailers to borrow money using receivables as collateral.

Non-Recourse Receivables: Receivables which are sold outright by the retailer and all risk of loss is born by the purchaser.

Private Label Credit Card: Credit card bearing the retailers name which is generally owned and processed by a third party for a fee.

Private Label Provider: Entity, usually a bank or finance company, which extends credit and processes transactions for a retailers private label program.

Third Party Credit Card: Credit card issued directly to the customer which can be used in a variety of places (i.e., MasterCard, Visa, American Express, etc.).

Company Credit Card: Credit card which is owned and processed internally by the issuing retailer.

Chargebacks: Disputed customer charges on third party cards which are passed through to the retailer.

Debit Cards: Customer cards issued by banks which automatically deduct transaction amounts directly from customer account balances.

Co-Branding: Credit card bearing retailer's name and logo as well as third party brandmark (i.e., MasterCard).

Smart Cards: Credit card which accumulates additional information electronically such as frequent shopper awards, etc.

Self Checkout: Process where a customer checks out and pays for purchases without the aid of store personnel.

Micro Marketing: Marketing focused on a specific target audience with common characteristics or attributes.

APPENDIX

SERVICES IN ORDER OF PREFERENCE BY TYPE OF RETAILER

	RANK ORDER*							
	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty/ apparel	Specialty/ non-apparel	Super-markets
Customer profiles	3.0	2.0	4.0	2.5	4.0	1.0	2.0	2.0
Demographic information for target marketing	**1.5**	**1.0**	**2.5**	**2.5**	**1.0**	**2.0**	**1.0**	**1.0**
Cooperative advertising	1.5	3.0	1.0	1.0	2.0	3.0	3.0	3.5
Promotional offers via mailing stuffers	**4.0**	**4.0**	**2.5**	**4.0**	**3.0**	**4.0**	**4.0**	**3.5**

*1 = most preferred

SERVICES IN ORDER OF PREFERENCE

PARTICIPANTS BY 1991 SALES VOLUME $MILLIONS

	RANK ORDER*			
	$0-$50	$50-$200	$200-$999	$1,000 or more
Customer profiles	2	3	3	2
Demographic information for target marketing	**1**	**1**	**1**	**1**
Cooperative advertising	3	2	2	3
Promotional offers via mailing stuffers	**4**	**4**	**4**	**4**

*1 = most preferred

WHY DID OR WOULD THE COMPANY IMPLEMENT CREDIT AUTHORIZATION TECHNOLOGY?

BY TYPE OF RETAILER

	RANK ORDER*							
	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty/ apparel	Specialty/ non-apparel	Super-markets
Eliminate bad credit situations	7.0	3.0	5.5	5.0	7.0	6.0	6.0	6.0
Increase POS* register throughput	**8.0**	**8.0**	**4.0**	**3.0**	**2.5**	**7.0**	**5.0**	**3.0**
Improve the company's cash-float position	3.0	4.0	7.5	7.0	8.0	5.0	3.0	8.0
Decrease clerical errors	**5.0**	**5.0**	**7.5**	**8.0**	**4.0**	**4.0**	**7.0**	**7.0**
Reduce expenses	2.0	2.0	2.0	4.0	5.5	2.0	4.0	2.0
Gain a competitive edge	**6.0**	**7.0**	**5.5**	**6.0**	**5.5**	**8.0**	**8.0**	**5.0**
Improve customer service	1.0	1.0	3.0	1.5	1.0	1.0	1.0	1.0
Reduce bankcard processing costs	**4.0**	**6.0**	**1.0**	**1.5**	**2.5**	**3.0**	**2.0**	**4.0**

*1 = most preferred

APPENDIX

CREDIT AUTHORIZATION TECHNIQUES

	PERCENT PARTICIPANTS BY TYPE OF RETAILER										
	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT	
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, NO PLANS
Dial service bureau & read number	22.22	00.00	77.78	30.77	7.69	61.54	12.50	00.00	87.50	00.00	100.00
Magnetic swipe reader (separate from POS terminal)	44.44	22.22	33.33	25.00	00.00	75.00	58.33	00.00	41.67	50.00	50.00
Magnetic swipe reader (as part of POS terminal)	41.67	16.67	41.67	75.00	12.50	12.50	41.67	16.67	41.67	83.33	16.67
Manually read 'bad number' report	40.00	00.00	60.00	00.00	9.09	90.91	00.00	00.00	100.00	00.00	100.00
Dial up leased lines	44.44	00.00	55.56	40.00	00.00	60.00	11.11	00.00	88.89	20.00	80.00
Satellite communications (VSAT)	12.50	00.00	87.50	10.00	00.00	90.00	00.00	00.00	100.00	16.67	83.33
Other	25.00	00.00	75.00	00.00	00.00	100.00	00.00	00.00	100.00	00.00	100.00

	HOME CENTER			SPECIALTY/ APPAREL			SPECIALTY/NON-APPAREL			SUPERMARKET		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	22.22	00.00	77.78	29.17	4.17	66.67	20.59	00.00	79.41	42.86	00.00	57.14
	72.73	**00.00**	**27.27**	**64.29**	**00.00**	**35.71**	**75.61**	**2.44**	**21.95**	**58.33**	**16.67**	**25.00**
	58.33	25.00	16.67	45.16	22.58	32.26	21.62	45.95	32.43	20.00	40.00	40.00
	22.22	**00.00**	**77.78**	**4.17**	**00.00**	**95.83**	**9.38**	**00.00**	**90.63**	**28.57**	**00.00**	**71.43**
	11.11	11.11	77.78	19.23	00.00	80.77	30.30	3.03	66.67	00.00	28.57	71.43
	10.00	**20.00**	**70.00**	**00.00**	**00.00**	**100.00**	**00.00**	**9.38**	**90.63**	**00.00**	**14.29**	**85.71**
	66.67	00.00	33.33	20.00	00.00	80.00	00.00	00.00	100.00	00.00	00.00	100.00

CREDIT AUTHORIZATION TECHNIQUES

	PERCENT PARTICIPANTS BY 1991 SALES VOLUME IN $MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Dial service bureau & read number	23.91	4.35	71.74	40.00	00.00	60.00	17.24	00.00	82.76	10.00	00.00	90.00
Magnetic swipe reader (separate from POS terminal)	**70.18**	**1.75**	**28.07**	**63.64**	**6.06**	**30.30**	**56.25**	**6.25**	**37.50**	**36.36**	**00.00**	**63.64**
Magnetic swipe reader (as part of POS terminal)	28.85	21.15	50.00	25.81	38.71	35.48	60.53	28.95	10.53	68.75	25.00	6.25
Manually read 'bad number' report	**10.87**	**2.17**	**86.96**	**25.00**	**00.00**	**75.00**	**3.70**	**00.00**	**96.30**	**00.00**	**00.00**	**100.00**
Dial up leased lines	17.39	2.17	80.43	37.50	00.00	62.50	25.81	6.45	67.74	23.08	15.38	61.54
Satellite communications (VSAT)	**4.55**	**00.00**	**95.45**	**00.00**	**4.17**	**95.83**	**7.14**	**10.71**	**82.14**	**10.00**	**20.00**	**70.00**
Other	10.53	00.00	89.47	22.22	00.00	77.78	00.00	00.00	100.00	00.00	00.00	00.00

APPENDIX

TYPE OF CREDIT OFFERED

	PERCENT PARTICIPANTS BY TYPE OF RETAILER											
	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS
Company's own card	58.33	00.00	41.67	89.47	00.00	10.53	8.33	8.33	83.33	16.67	00.00	83.33
Private-label	**00.00**	**9.09**	**90.91**	**12.50**	**00.00**	**87.50**	**7.69**	**7.69**	**84.62**	**25.00**	**00.00**	**75.00**
American express	50.00	00.00	50.00	90.00	00.00	10.00	46.15	00.00	53.85	14.29	00.00	85.71
Diners club	**00.00**	**00.00**	**100.00**	**25.00**	**00.00**	**75.00**	**9.09**	**00.00**	**90.91**	**00.00**	**00.00**	**100.00**
Discover	84.62	00.00	15.38	62.50	6.25	31.25	64.29	21.43	14.29	62.50	25.00	12.50
Mastercard	**83.33**	**16.67**	**00.00**	**94.74**	**00.00**	**5.26**	**92.86**	**00.00**	**7.14**	**85.71**	**00.00**	**14.29**
Optima	36.36	00.00	63.64	83.33	00.00	16.67	46.15	7.69	46.15	00.00	00.00	100.00
Visa	**84.62**	**15.38**	**00.00**	**94.74**	**00.00**	**5.26**	**92.86**	**00.00**	**7.14**	**85.71**	**00.00**	**14.29**
Affinity card	00.00	00.00	100.00	00.00	00.00	100.00	00.00	00.00	100.00	14.29	00.00	85.71
Debit card	**00.00**	**20.00**	**80.00**	**6.67**	**6.67**	**86.67**	**15.38**	**00.00**	**84.62**	**00.00**	**00.00**	**100.00**

MARKETING TECHNIQUES USED WITH COMPANY-OWNED CREDIT CARDS

	PERCENT BY TYPE OF RETAILER											
	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Billing stuffers	28.57	14.29	57.14	100.00	00.00	00.00	50.00	00.00	50.00	100.00	00.00	00.00
Promotional mailings	**14.29**	**28.57**	**57.14**	**93.75**	**6.25**	**00.00**	**00.00**	**100.00**	**00.00**	**100.00**	**00.00**	**00.00**
Discount/coupons	28.57	00.00	71.43	87.50	6.25	6.25	50.00	00.00	50.00	00.00	50.00	50.00
Frequent shopper programs	**00.00**	**00.00**	**100.00**	**37.50**	**12.50**	**50.00**	**00.00**	**100.00**	**00.00**	**00.00**	**50.00**	**50.00**
Future promotions information	00.00	14.29	85.71	62.50	6.25	31.25	00.00	50.00	50.00	00.00	00.00	100.00
Seasonal ad books	**00.00**	**00.00**	**100.00**	**81.25**	**6.25**	**12.50**	**50.00**	**00.00**	**50.00**	**50.00**	**00.00**	**50.00**
Merchandise for credit customers only	00.00	00.00	100.00	37.50	00.00	62.50	00.00	00.00	100.00	00.00	50.00	50.00
More lenient terms during seasons	**00.00**	**00.00**	**100.00**	**62.50**	**6.25**	**31.25**	**50.00**	**00.00**	**50.00**	**00.00**	**00.00**	**100.00**
Other	00.00	00.00	100.00	50.00	00.00	50.00	00.00	00.00	00.00	00.00	00.00	00.00

	HOME CENTER			SPECIALTY/ APPAREL			SPECIALTY/NON-APPAREL			SUPERMARKET		
	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CUR-RENTLY OFFER	NO, BUT PLAN TO	CUR- NO, NO PLANS	NO, BUT RENTLY OFFER	PLAN TO	NO, NO PLANS
	46.15	00.00	53.85	26.47	8.82	64.71	20.93	2.33	76.74	25.00	00.00	75.00
	50.00	16.67	33.33	11.11	7.41	81.48	17.50	2.50	80.00	00.00	00.00	100.00
	50.00	8.33	41.67	81.82	00.00	18.18	69.57	00.00	30.43	10.00	00.00	90.00
	00.00	00.00	100.00	17.24	00.00	82.76	26.19	00.00	73.81	00.00	00.00	100.00
	84.62	00.00	15.38	64.52	9.68	25.81	82.61	10.87	6.52	41.67	16.67	41.67
	100.00	00.00	00.00	100.00	00.00	00.00	95.65	00.00	4.35	71.43	14.29	14.29
	41.67	8.33	50.00	69.70	00.00	30.30	47.62	00.00	52.38	10.00	00.00	90.00
	100.00	00.00	00.00	100.00	00.00	00.00	95.56	00.00	4.44	71.43	14.29	14.29
	9.09	00.00	90.91	7.14	00.00	92.86	5.26	00.00	94.74	00.00	00.00	100.00
	00.00	20.00	80.00	3.57	7.14	89.29	13.16	7.89	78.95	8.33	33.33	58.33

	HOME CENTER			SPECIALTY/ APPAREL			SPECIALTY/NON-APPAREL			SUPERMARKET		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	42.86	00.00	57.14	90.00	00.00	10.00	81.82	9.09	9.09	00.00	50.00	50.00
	57.14	14.29	28.57	100.00	00.00	00.00	90.91	00.00	9.09	50.00	00.00	50.00
	57.14	00.00	42.86	60.00	20.00	20.00	70.00	00.00	30.00	50.00	00.00	50.00
	00.00	57.14	42.86	20.00	40.00	40.00	12.50	25.00	62.50	50.00	50.00	00.00
	28.57	14.29	57.14	60.00	20.00	20.00	44.44	00.00	55.56	50.00	00.00	50.00
	14.29	28.57	57.14	60.00	10.00	30.00	33.33	11.11	55.56	00.00	00.00	100.00
	00.00	14.29	85.71	22.22	00.00	77.78	00.00	12.50	87.50	00.00	50.00	50.00
	14.29	00.00	85.71	30.00	20.00	50.00	40.00	00.00	60.00	00.00	00.00	100.00
	00.00	00.00	100.00	00.00	00.00	00.00	00.00	00.00	100.00	00.00	00.00	00.00

APPENDIX

EMERGING RETAIL ISSUES

	PERCENT PARTICIPANTS BY TYPE OF RETAILER								
	CONVENIENCE STORE		DEPARTMENT STORE			DISCOUNT STORE		MASS MERCHANT	
	USE	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, NO PLANS	USE	DON'T USE, NO PLANS
Smart cards	00.00	100.00	00.00	6.25	93.75	00.00	100.00	00.00	100.00
Smart shopper program	00.00	100.00	00.00	6.67	93.33	33.33	66.67	00.00	100.00
Credit securitization	11.11	88.89	11.76	11.76	76.47	33.33	66.67	00.00	100.00
Cash back on credit sales	00.00	100.00	5.88	00.00	94.12	00.00	100.00	00.00	100.00
Autodial collection systems	00.00	100.00	43 75	00.00	56.25	00.00	100.00	00.00	100.00
Artificial intelligence	00.00	100.00	17.65	5.88	76.47	00.00	100.00	00.00	100.00
VIP customer cards	00.00	100.00	25.00	00.00	75.00	00.00	100.00	50.00	50.00

	HOME CENTER			SPECIALTY/ APPAREL			SPECIALTY/NON-APPAREL			SUPERMARKET	
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	00.00	16.67	83.33	00.00	00.00	100.00	00.00	11.11	88.89	00.00	100.00
	00.00	**16.67**	**83.33**	**00.00**	**10.00**	**90.00**	**00.00**	**11.11**	**88.89**	**33.33**	**66.67**
	16.67	16.67	66.67	20.00	00.00	80.00	20.00	20.00	60.00	50.00	50.00
	00.00	**16.67**	**83.33**	**10.00**	**10.00**	**80.00**	**00.00**	**22.22**	**77.78**	**00.00**	**100.00**
	00.00	16.67	83.33	20.00	20.00	60.00	10.00	20.00	70.00	00.00	100.00
	00.00	**16.67**	**83.33**	**10.00**	**06.00**	**90.00**	**11.11**	**11.11**	**77.78**	**00.00**	**100.00**
	00.00	16.67	83.33	10.00	20.00	70.00	00.00	22.22	77.78	33.33	66.67

EMERGING RETAIL ISSUES

	PERCENT PARTICIPANTS BY 1991 SALES VOLUME IN $MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Smart cards	00.00	9.09	90.91	00.00	00.00	100.00	00.00	7.69	92.31	00.00	00.00	100.00
Smart shopper program	**4.55**	**13.64**	**81.82**	**00.00**	**00.00**	**100.00**	**00.00**	**7.69**	**92.31**	**00.00**	**11.11**	**88.89**
Credit securitization	13.64	9.09	77.27	14.29	00.00	85.71	14.29	14.29	71.43	20.00	20.00	60.00
Cash back on credit sales	**4.55**	**13.64**	**81.82**	**00.00**	**00.00**	**100.00**	**7.14**	**7.14**	**85.71**	**00.00**	**00.00**	**100.00**
Autodial collection systems	4.55	4.55	90.91	00.00	00.00	100.00	23.08	23.08	53.85	54.55	9.09	36.36
Artificial intelligence	**00.00**	**4.55**	**95.45**	**00.00**	**00.00**	**100.00**	**21.43**	**7.14**	**71.43**	**20.00**	**10.00**	**70.00**
VIP customer cards	13.64	9.09	77.27	00.00	7.14	92.86	15.38	15.38	69.23	10.00	10.00	80.00